Ansa Cevicalis

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NEWS SUMMARY

GENERAL

Soccer bribes lead to ban

Italy's most popular footballer, Paolo Rossi, has been banned from playing for three years by hi snational Football Association following an investigation into a an investigation into a nationwide bribery scandal.

The association has also relegated the 1979 League champions, AC Milan, to the Second Division for its part in the affair, and suspended other players. Rossi's ban rules him out of the European Nations Cup finals which take place in Italy next month.

Players and club officials involved were said to have received money from gamblers in return for fixing some League match results.

Uganda Cabinet

Uganda's ruling military commission has appointed a new Cabinet which strengthens former President Milton Obote's party. Page 3

New government

King Baudouin of Belgium has named a new Government led by Prime Minister Wilfried Martens, ending a five-week-old political crisis.

Martial law

The Army has taken control of South Korea with the imposition of martial law following violent student demonstrations. Page 3

Sadat plan

Egypt's President Sadat has presented Israel with proposals for reopening negotiations on Palestinian autonomy for the West Bank and Gaza Strip. Page 2

China's rocket

China successfully launched an inter-continental rocket 8,000 miles into the Pacific. Page 3

Peru elections

Peru went to the polls to elect a civilian government after 12 years of military dictatorship.

Riots kill 10

At least 10 people died during riots in Miami which began after four white ex-policemen had been cleared of killing a black man.

UN death theory

A new investigation into the death of former United Nations Secretary-General Dag Hammerskjoeld says that his plane was attacked by white mercenaries in Africa.

£1m fires

Forest fires throughout Britain during the past five weeks have caused damage of more than £1m. Page 6

Jet found

Divers have found the wreck of the RAF Hawk jet which crashed into the sea off Brighton during a display, but recovery is expected to take several days.

£30m probes

City of London Police dealt with allegations of major frauds involving about £30m last year. Page 8

Briefly ....

Banned motorists should take driving tests before being allowed back onto the roads, the British Safety Council says.

Mail, Telex and some telephone charges in the Irish Republic rise by up to 30 per cent today.

Carlos Reutemann of Argentina won the Monaco Grand Prix in a Williams.

BUSINESS

TUC to study CBI draft

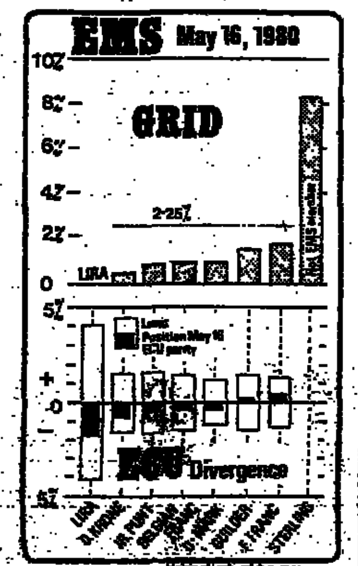
● TUC officials are studying the draft of a framework agreement submitted by the CBI on the introduction of new technology into companies. Back Page

● FRENCH franc remained the most improved currency in the European Monetary System in a week where trading was curtailed by national holidays and strike action.

The Belgian franc improved over the Irish punt and maintained its place above the Danish krone and Italian lira, despite further cuts in Belgian short-term interest rates.

The West German D-mark was the third most improved currency behind the Dutch guilder and French franc.

The Italian lira was again the weakest member of the system, but it remained comfortably within its maximum permitted divergence.



The charts show the constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● STOCK EXCHANGE is under extreme political, economic and commercial pressure and its future structure is unclear, chairman Nicholas Goodison warned. Page 6

● TURKEY is understood to be considering the sale of up to 60 per cent of the Tumosan holding company, set up by the Government to develop an indigenous car engine industry. Back Page

● COAL from the UK will be providing petrol for motorists and aircraft fuel within the next two decades, National Coal Board chairman Sir Derek Ezra said. Page 8

● DECISION by the Government is expected in the next few weeks on the future of Harland and Wolff, the heavily subsidised Belfast shipyard. Back Page

● NUMBER of ships laid up has started to rise for the first time in a year because of depressed rates in the tanker markets. Back Page

● FT CONSUMER confidence index rose 11 per cent to minus 26 per cent, its highest for a year. Page 7

● URGENT TUC action to stop other union members taking over laggers' work at the Isle of Grain power station was demanded by GMWU general secretary David Basnett. Page 8

● MANUFACTURERS must assess themselves the hazards of the processes and materials they are using, Health and Safety Executive director-general John Locke said. Page 7

● THIRD WORLD'S Newly Industrialised Countries are being used by ailing UK industries as "a ready scapegoat" to obtain protectionist foreign trade policies, an Overseas Development Institute report claims. Page 4

PUBLISHER'S NOTICE

The Financial Times apologises for errors contained in this issue which are due to difficulties in the reading department.

CONTENTS

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The Nine to start sanctions against Iran on Thursday

BY JOHN WYLES IN NAPLES

THE NINE member-Governments of the European Community will impose partial trade sanctions on Iran from Thursday as a gesture of support for the U.S. battle to secure release of the hostages.

Though the sanctions that each individual government will apply fall short of what seemed the Nine's original intentions, the move is one of the most important foreign policy actions in EEC history.

It was confirmed here in a two-day informal meeting of EEC Foreign Ministers which testified to the increasingly confident way in which the Nine are seeking joint policies on other major international issues, notably Afghanistan and a Middle East peace settlement.

Significantly, they are preparing an initiative on the Palestinian problem which could lead to an open clash with the U.S.

The sanctions have been adopted under strong American pressure in spite of the extreme doubts of the EEC Governments as to whether they will help secure the hostages' release.

This scepticism, coupled with a reluctance to pay the full price involved in banning all trade links with Iran, means that each Government is largely confining its embargo to signing of new trade and service contracts.

But in an important move to mollify the Carter Administration, all contracts signed since November 4, the day hostages were made captive, will be banned.

The UK is going slightly further than some of its partners in embargoing new loans and credits to Iran.

How large a trade sacrifice the package will entail for the Nine is unknown.

Senior British sources were stressing yesterday that the sanctions will be far more costly for Europe than the more comprehensive embargo being applied by the U.S.

But the fact that many large contracts are excluded, including Italy's $3bn of construction work, the Talbot motor company's supply of car kits from the UK and several large West German contracts, raises strong doubts about the package's true severity.

EEC trade with Iran has been running at about £500m a month this year, but it is not known what proportion is accounted for by contracts signed before November 4 and therefore free of the embargo.

● The Foreign Ministers of the Nine were decidedly pessimistic yesterday about the row over Britain's payments to the Community budget. From the British point of view, the only positive gain was a general agreement to consider a three-year accord on curbing Britain's net payments to the EEC.

Sig. Emilio Colombo, Italian Foreign Minister, who played host to the weekend gathering in an 18th-century Neapolitan villa, said afterwards that he had told Mr. Edmund Muskie of the sanctions decision, and the U.S. Secretary of State gave it his "approval and support."

But U.S. officials who were accompanying Mr. Muskie in his meetings in Brussels and Vienna last week were privately scathing about the EEC's apparent backsliding from a decision first taken by the Foreign Ministers on April 22.

This held out the probability of action in line with the UN Security Council resolution vetoed by the Soviet Union on January 10 which, if passed, would have meant bans on existing contracts and transport links with Iran as well as on future service contracts.

The Nine hope that new developments in Iran, either through a decision of the newly-elected Parliament, the Majlis, or through another UN initiative, will quickly remove the need for the sanctions.

Mr. Ajib Daoudy, a Syrian member of the UN mission set up early in the year to inquire into the acts of the Shah's regime, is to reopen contacts with the Iranian Government.

Yesterday's communique from the Foreign Ministers wished him well and in a vaguely-worded conclusion hoped that the UN mission would make possible a "rapid suspension" of the measures.

The Ministers' talks on the Middle East were prompted by the instruction they have been given to provide a report for the EEC Heads of Government summit in Venice next month, and by the serious impasse in the Camp David negotiations.

The final form of the EEC initiative will probably be decided in Venice. But speculation is focussing on a possible amendment to Security Council Resolution 242. The amendment would add to resolution 242 a recognition of the Palestinians' rights to participate in a negotiated ...

Continued on Back Page

GEC rejects Inmos stake

BY GUY DE JONQUIERES

THE GENERAL ELECTRIC Company has made clear to the National Enterprise Board that it does not wish to pursue discussions which it opened several weeks ago on the possibility of taking a stake in Inmos, the NEB subsidiary set up to make microchips.

Thus the thorny problem of the future of Inmos has been thrust squarely back into the lap of Sir Keith Joseph, the Industry Minister.

With no other private-sector company apparently ready to be involved, the Government may soon face an uncomfortable choice between scrapping the project, which would involve writing off a substantial investment of public funds, or making what amounts to an open-ended commitment to its future.

Inmos has received £25m in public funds. An NEB-backed request for a second £25m has awaited Government approval for almost six months. Officials in Whitehall and many electronics industry experts believe that still more money may be needed if the project is to succeed.

The granting of the second tranche was narrowly approved in principle by a Cabinet committee just before GEC expressed an interest in Inmos. The Government has delayed further action since then, waiting for GE Cto make its intentions clear.

Discussions about the proposed second tranche have been clouded by controversy on where to put Inmos's proposed UK factory, which the money would be used to finance.

The founders of Inmos have insisted that the plant be built in or near Bristol, and there have been veiled hints that they might severe their links with Britain and transfer the whole operation to the U.S. unless they got their way.

But some MPs from both major parties want the factory in an economically depressed region, and have demanded that the Government make this a condition of approving the second £25m.

The Government would undoubtedly still like to see all or part of the NEB interest in Inmos hived off to the private sector.

This would be consistent with its policy of reducing State involvement in industry, and would lessen its potential financial exposure.

Cabinet begins public-sector pay discussion

MINISTERS THIS week begin trying to hammer out a clearer strategy for public-sector pay in the hope of reducing the average rate of settlement in the next pay round to well below the increase in prices.

One possible objective mooted by Ministers is that the average rate of increase in public-sector wages should be kept at least three or four percentage points below the rise in the Retail Prices Index.

Discussions begin at a meeting of the Cabinet's economic committee, which is expected to make a recommendation to the full Cabinet before summer recess. The talks will take place against a background of increasing concern among Ministers over the whole question of public-sector pay.

... only way to stem public-sector pay demands this autumn—and break all the old assumptions about "entitlement"—will be for several major nationalised industries to face it out with their unions through a prolonged strike. They feel the Government should use its relative popularity now to prepare public opinion for what may be a difficult autumn.

The intention still seems to be to rely largely on cash limits on central Government pay, together with a strict Rate Support Grant settlement for local governmen this autumn. Ministers are very sensitive to the political implications of being seen ot do a U-turn.

But some Ministers are querying whether pressure cannot be brought to bear on the management of some nationalised trading companies to withstand demands for inflationary wage settlements through their prices. Others argue that this would just lead to problems in nationalised industry financing.

But there is a general concern, apparently shared by the Prime Minister, that some nationalised concerns can accept big wage demands and still keep within their cash ceilings by raising their prices.

In the last financial year, cash limits for most parts of the public sector allowed for pay increases of no more than 14 per cent. But this did not prevent important groups of public servants winning 25 per cent pay increases, and a "noting" of about 20 per cent being established in most of the nationalised industries.

Even when cash limits have forced unions to "pay for" excessive increases with cuts in manning, resulting high percentage pay increases have had a damaging psychological effect on private employers' efforts to resist similar pay demands.

The Government's main effort looks like being directed at trying to break the expectation in the public sector that pay will automatically keep up with prices and with the pay of other workers.

This attitude almost certainly implies an end to the Clegg Commission on Pay Comparability in its present form. Clegg's popularity with Ministers is at an all-time low because of the mistake on teachers' pay. The role of the Top Salaries Review Board may also be reviewed in the same light. Ways may also be considered to try to force public-sector employers to take a tougher stance with the unions.

Civil Service pay is seen as being particularly important and Lord Soames, Lord President of the Council, is likely to play a key role in future negotiations.

Discussions about public-sector pay usually take place among Ministers during the spring and summer. The talks this year have taken on greater significance because of concern about the recent earnings figures, which showed a 20.1 per cent increase in the year to March, and about last week's retail price statistics, which showed inflation at 21.8 per cent, still rising.

The growing consensus among economists that inflation will still be well above the Treasury's forecast of 16.5 per cent by the end of this year has led to fears that, even though inflation figures will improve in July, when last last year's Budget measures drop out of the 12-month comparison, they could start creeping up again in the autumn, just when the new pay round is beginning.

The next pay round will be of immense political importance to the Government as it will be the first one not to be affected by pay commitments left over from the last Administration.

Lombard, Page 12

£ in New York

—	May 16	Previous
spot	$2.2850-2860	$2.2870-2900
1 month	1.24-1.16 dis	1.45-1.35 dis
3 months	3.40-3.38 dis	3.60-3.50 dis
12 months	7.25-7.05 dis	7.40-7.20 dis

Fewer contentious laws planned for next session

BY ELINOR GOODMAN, LOBBY STAFF

LEGISLATION TO SPLIT the British National Oil Corporation in two, together with a new Nationality Bill and another relatively short Local Government Bill, are likely to be included in the next session of Parliament.

If agreement can be reached, a Bill devolving powers to a Northern Ireland Assembly may also be included in what should be a much lighter legislative programme next session.

Ministers have no agreed the outline of the next Queen's Speech, to be announced in the autumn, and it looks like containing far fewer contentious bills than this session, when the Government was trying to implement as many of its manifesto commitments as possible.

Some Conservative backbenchers had hoped for more legislation to deal with the trade unions. But Mr. James Prior, the Employment Secretary, is likely to continue arguing that it would be better to give this session's Employment Bill time to work before introducing more law into such a sensitive area.

Conservation

Other likely legislation includes a Bill to change the contempt laws, which will probably be introduced in the House of Lords; another Companies Bill, mainly bringing Britain into line with the rest of the European Community; an Education Bill to help the handicapped; and a Bill changing the treatment of young offenders.

The Department of Environment will have two bills—a Countryside Bill, which will deal with conservation and be introduced in the Lords, and another Local Government Bill implementing some of the clauses dropped after the Government was forced to withdraw its first Local Government Bill from the Lords this session.

Plans by Mr. Michael Heseltine, the Environment Secretary, for a more ambitious Local Government Bill next session have apparently been dropped after pressure from Mr. Norman St. John Stevas, thet Leader of the House, who argued that Mr. Heseltine's legislation had caused enough problems this session and pointed to the Government's election promise to legislate less than the last Government.

Virtually all the Departments have a number of minor Bills they are hoping to introduce. The Department of Energy, for example, has an energy labelling Bill on the stocks together with a measure on nuclear installations ratifying Britain's international obligations.

Afghan invasion tops agenda for Brezhnev-Giscard talks

BY OUR FOREIGN STAFF

THE FRENCH and Soviet leaders, M. President Valery Giscard d'Estaing and President Leonid Brezhnev, arrived in Warsaw yesterday for talks—the first top-level contacts between Moscow and the West since the Soviet Union's troops invaded Afghanistan at Christmas.

President Giscard's trip surprised his counterparts at the meeting of European Economic Community Foreign Ministers' meeting in Naples. Privately some delegations said it seemed an ill timed assertion of France's prized independent foreign policy.

The presence of Soviet troops in Afghanistan and ways to repair the damage that the intervention has done to East-West relations will dominate the meeting between the two Presidents.

Mr. Andrei Gromyko, the Soviet Foreign Minister, is accompanying Mr. Brezhnev and M. Jean Francois-Poucet, the French Foreign Minister, is with M. Giscard. It is the third trip abroad in 10 days for the ailing Mr. Brezhnev, who was in Warsaw last wee kfor the Warsaw Pact summit meeting and in Belgrade before that for the funeral of President Tito.

The Russians are expected to stress their opposition to NATO's decision to site new U.S. medium-range missiles, which are capable of reaching the Soviet Union, in Europe.

France, which withdrew from NATO's integrated command structure under the late President Charles de Gaulle, had no part in the alliance's decision.

Neutrality

The two leaders will probably also talk about the boycott by some Western countries of the Moscow Olympic Games.

It is thought by some Western diplomats that the Soviets could be attracted by a possible formula for Afghan neutrality which would both extricate Russian troops from the country and end the hostile international reaction to the invasion.

However, there is a wide gulf to be bridged between Moscow's apparent desire to leave the Babrak Kamal regime installed in Kabul as a prelude to establishing Afghanistan's neutrality and the West's insistence that there should be a government in Afghanistan which clearly has the backing and is the choice of its people.

The meting in Warsaw is formally at the invitation of Mr. Edward Gierek, the Polish leader.

It clearly demonstrates the role which Warsaw has ben given within the Warsaw pact as a channel of communication with the West.

Afghanistan was at the centre of talks between French leaders and Mr. Gromyko late last month when the Soviet Minister visited Paris.

France has progresively hardened its criticism of the Soviet intervention but has insisted on keeping open the lines of communication.

OVERSEAS NEWS

Why Sadat needs Western support

BY ROGER MATTHEWS IN CAIRO

PRESIDENT Anwar Sadat is not going to give up his treaty with Israel and his Middle East peace efforts, but his frustration, bitterness and lack of policy options are contributing to a more dangerous mood in Egypt and the rest of the region.

For the past two and a half years, the President and, to a lesser extent, Egyptian public opinion, have been carried forward on a wave of Western political applause and over $2bn a year in aid and soft loans. The aid is still flowing, but the political support is beginning to look increasingly impotent as it runs into the seemingly immovable wall of Israeli intentions towards the occupied West Bank, Jerusalem, and the Gaza Strip.

Mr. Sadat's confidence and optimism are being severely tested, and the indications of the past 10 days are that his previously sure political touch may be becoming a little ragged.

During that brief period, Mr. Sadat suspended Palestinian autonomy negotiations with Israel, agreed to resume them, suspended them again, got rid of his Prime Minister and nearly half the Cabinet, changed virtually the entire economic team, announced he was going to cut prices, set the scene for two important constitutional changes, including one which would allow him to remain President indefinitely, called a referendum for next Thursday and, in the course of an extraordinary four-hour speech, accused some of Egypt's minority Christian community of mounting a conspiracy against him.

At least some of these actions reflect Mr. Sadat's sense of isolation and vulnerability to criticism. He is boycotted by all but two members of the 21-strong Arab League, scarcely on speaking terms with the Soviet Union and the Eastern bloc, privately suspicious of the so-called "European initiative," and particularly of the French and their wooing of the Arab oil-producing states, and reduced to a very minor role in Africa and the non-aligned movement. This leaves Mr. Sadat with the United States.

Mr. Sadat and his aides try hard, but sometimes cannot entirely hide their despair at American vacillation and apparent weakness. Egyptian despair is enhanced by the knowledge that, by themselves, they are virtually powerless to influence Israel or to stem the greater threat to the Middle East which they believe has been posed by the Soviet Union's invasion of Afghanistan and its activities in the Horn of Africa.

President Sadat appears to believe he has done everything possible to give the U.S. a lead. He made peace with Israel, presented himself as a reasonable and conciliatory Arab leader, gave the U.S. military facilities for its calamitous attempt to rescut the hostages in Iran, took in the deposed Shah when the Americans had washed their hands of him and, whatever the mess President Jimmy Carter was in on foreign policy, always found a positive aspect to praise.

Then came last Tuesday. During a long conversation with President Carter, which Mr. Sadat described as more like negotiations, the Egyptian leader bowed to U.S. pressure and agreed to resume the Palestinian autonomy negotiations which he had suspended the previous Friday because of Israel's refusal to budge on key issues.

It would be remarkable if a simple country boy, as Mr. Sadat likes to present himself, could remain unaffected by the lionisation he has enjoyed

But, even as Mr. Sadat was making known his decision during Wednesday's marathon speech, the Israelis were pushing through their Parliament a draft law which emphasised their determination to hold on to Arab East Jerusalem, annexed after the 1967 war.

Mr. Sadat was incensed at the timing of this latest Israeli attempt to create "new facts," and more obliquely by Mr. Carter's failure to warn him that it was about to happen. So the talks were off again, and the May 26 target date for reaching agreement on Palestinian autonomy was a dead duck. The Arab countries which had refused to have anything to do with the Sadat peace process, and forecast that he would eventually be left with a separate peace with Israel and nothing else, have been proved right, at least for the time being.

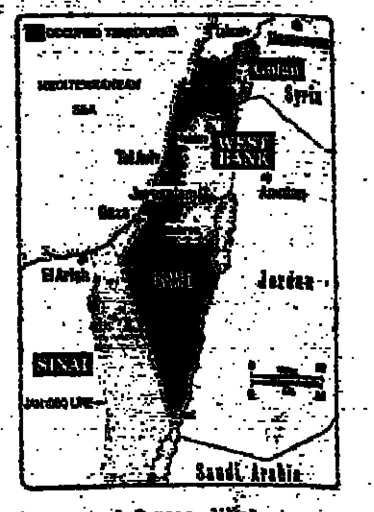
Perhaps mindful of the impending failure on May 26 and Israel's refusal to provide even a fig leaf to justify Egypt's theoretical willingness to continue the talks after that date, Mr. Sadat has been diverting domestic attention to other matters.

There is only one topic which really concerns the mass of Egypt's impoverished 41m people—improced standards of living. So Mr. Sadat again promised them prosperity and, to give the pledge greater apparent credibility, took over the role of Prime Minister and created six new Deputy Premiers. He also announced price cuts—which so far do not amount to much—increased the minimum wage by 25 per cent, handed out 10 per cent bonuses to the private sector (somewhat to the chagrin of company executives who, of course, had not been consulted beforehand), and promised more would be arriving with a new budget scheduled for next month.

Whether this signifies that Mr. Sadat is about to buy domestic political calm at the expense of the slow and painful efforts to move the economy on to a more rational fiscal basis, is too early to tell. If Mr. Sadat's thinking is based on the hope that Mr. Menahem Begin's government in Israel will fall apart by the end of the year, and that a re-elected Mr. Carter will feel free of the current constraints imposed by the U.S. Jewish vote, then perhaps he believes six months of letting the domestic economy rip is worth the risk. The Egyptian balance of payments has improved so much over the past two years that this could be allowed to happen without immediately running into the hard-currency crisis which hit the country in 1976 and 1977, but at the cost of building up potentially explosive inflationary tensions for the future.

Mr. Sadat, on his own admission, is not economics, and prefers to set the broad lines of policy which are necessarily closely related to his primary pre-occupation—foreign affairs. For the first time since he became President in 1970, Mr. Sadat also appears to have played relatively little part in the selection of last week's new Cabinet, being content to leave most of the work to Mr. Hosni Mubarak, the Vice-President, who will, in effect, be Prime Minister.

One of the most interesting political trends of the past 18 months has been the increasing influence of Mr. Mubarak, a former Air Force commander who has quietly been amassing power, not least through being in charge of the re-equipping of the armed forces, likely to cost the U.S. about $8bn by the end of the decade. At the same time, President Sadat's inner circle of friends and advisers seems to have been narrowing.



Mr. Sadat's domestic critics are also becoming slightly bolder, although still very restrained. Inflation, Islamic fundamentalism, the growing gap between rich and poor, Israeli intransigence, the Arab boycott, the dependence on the U.S., the lack of parliamentary consultation, and the alleged unconstitutional acts of the presidency are all sensitive area.

Although Mr. Sadat has been mocked often enough in the past, this has not diminished his sensitivity. On the contrary, it would be remarkable if a simple country boy, as Mr. Sadat likes to present himself, could remain unaffected by the lionisation he has enjoyed from the West during the past couple of years.

It is difficult to see how Mr. Sadat's frustrations can be relieved. He urgently wants to play a key unifying and leadership role in the Arab world to face the Soviet threat, but cannot because of his peace treaty and failure to deliver anything on Palestinian autonomy. He believes he broke the deadlock on Middle East peace, and instead finds growing radicalisation throughout the Arab world. He believes he won over much of American public opinion, yet finds that Israel continues to act in complete disregard of Washington's wishes.

In the past, Mr. Sadat has had great success in pulling rabbits out of hats, and it is still too soon to suggest he cannot do so again. But he needs help. For the Western nations that means, however unpalatable it may seem to some of them, doing something for the Palestinians.

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Gloom over UK payments issue at Naples talks

BY JOHN WYLES IN NAPLES

FOREIGN Ministers of the European Community emerged from two days of informal talks in Naples yesterday in pessimistic mood about prospects for resolving the row over Britain's EEC budget contribution by the end of this month.

Sig. Emilio Colombo, Italy's Foreign Minister, who was host at the meeting, said afterwards that he was not optimistic and hi view appears to have been shared by all the other Ministers present.

From Britain's point of view the only positive gain was a general agreement to consider a three-year arrangement for curbing Britain's net payments to Brussels. But the other seven Foreign Ministers—Belgium was not represented because it was in the throes of forming a any acceptable cash offers for Lord Carrington to take home. new Government—did not table

Instead, France and West Germany won agreement to bring Community Economics and Finance Ministers into the act. At a meeting in about a week's time they will be asked to produce estimates of each member state's payments to, and receipts from, the budget for 1980 and 1981 and a statement of trends for 1982.

If Sig Colombo, as president of the Council of Ministers judges the moment favourable he will call the Foreign Ministers into session at the end of the month to make another attempt to settle the issue. At the same time, EEC Farm Ministers will meet and wait for Britain to accept a 5 per cent increase in farm prices in return for a budget deal.

The estimates to be produced by the Finance Ministers will cover the years during which any agreed special budget arrangements for Britain would last. The figures are expected to show that, on present trends, payments to the budget by London will increase from the current estimate of at least £1.1bn this year to more than £1.3bn by 1981-82.

The involvement of Community Finance Ministers will bring into the negotiations Herr Hans Matthoefer, West Germany's Finance Minister. This could be important because Herr Matthoefer was greatly disturbed by the two-year offer made by his Chancellor, Herr Helmut Schmidt, at the EEC's Luxembourg summit last month. This would have sliced about £775m a year off Britain's EEC budget payments and around 45 per cent of the cost would have been carried by West Germany.

Herr Schmidt has since withdrawn the offer, partly because of pressure from Herr Matthoefer who is opposed to allowing Britain to claw it back on the ground that the extra cost to West Germany would undermine Bonn's budgetary priorities.

British officials have not given up hope that West Germany and France can be persuaded to repeat their Luxembourg concessions to avoid a deeper crisis in the Community.

U.S. mutual fund boost worries bankers

By Stewart Fleming in New York

FEARS that the continued growth of money market mutual funds in the U.S. has the potential for creating serious financial problems for smaller banks and savings and loan companies are being expressed by bankers and bank regulators.

In the week ending last Wednesday, assets of money market mutual funds, only $10bn at the beginning of 1979, rose to $65bn, following the second biggest weekly increase ever.

In the wake of this report, Mr. John Heimann, Comptroller of the Currency, expressed his concern about the outflow of deposits from smaller savings and ssihncffnavoisandg ET SH CM loan associations and commercial banks and into money market mutual funds.

The sharp fall in U.S. interest rates in the past few weeks has begun to ease the severe financial pressures which were building up in sectors of the financial system, particularly in the thrift industry which finances the bulk of home loans.

It is burdened with fixed interest assets earning under 10 per cent, but for a while was financing some of these home loans with money costing over 15 per cent. The fall in rates has brought lenders' costs more into line with the rate they are earning on loans.

But while money market and Treasury Bill rates have fallen to under 10 per cent, money market mutual funds are still offering investors returns substantially higher than this.

The problem for the financial sector is that smaller financial institutions do not have direct access to the New York money markets, as do the large money centre banks, and therefore find it difficult to replace deposits which are withdrawn and put into money market mutual funds.

In March, when the Federal Reserve imposed its tougher credit control policy, specific action was taken by the centray bank to try to curb the growth of money market mutual funds, by imposing a 15 per cent non-interest-bearing reserve on them. This move, however, only seems to have slowed the fund's growth temporarily.

A new committee of Federal Bank regulators is reported to be examining new ways to tackle the problem

Uganda's rulers take wide powers

BY MICHAEL HOLMAN IN KAMPALA

UGANDA'S ruling Military Commission yesterday accorded itself sweeping powers under a 14-point proclamation, and appointed a new Cabinet in which half the posts are now held by associates of a former President, Dr. Milton Obote.

Observers noted that the proclamation, entitled Legal Notice Number One makes no reference to elections. President Julius Nyerere of Tanzania is reported to have advised the new rulers to hold a poll under international supervision within three months when he met them during weekend talks in the northern Tanzanian town of Arusha.

Little is known about the intended policies of the new regime which overthrew President Godfrey Binaisa 10 days ago. Aside from broad promises to end corruption and mismanagement, the Military Commission has spent its time consolidating its position. But the composition of the new Cabinet has encouraged speculation that the way is being prepared for Dr. Obote's return from exile in Tanzania to the post of Prime Minister.

The notice, signed by Mr. Paul Mwanga, chairman of the six-member Commission and the country's effective head, was first read over Uganda Radio at midday and repeated throughout the rest of the day. Although sporadic firing has been heard in Kampala for the past three nights, the city appears calm, with little military activity.

The opening item of the proclamation pledged the appointment of a three-member Presidential Commission which would "exercise executive powers of the Government" through a Cabinet of Ministers.

But subsequent provisions make it clear that real authority lies with the Military Commission, four of whose members are senior army officers, including the army commander, Maj.-Gen. Tito Okello, and the chief of staff, Brig. Oyite Ojok.

The 30-strong Cabinet announced earlier yesterday, which includes the Military Commisioners as Ministers without Portfolio, will be headed by Mr. Mwanga. The proclomation specifically states that the Military Commission "shal direct the Cabinet . . . on all matters of policy."

The 140-member National Consultative Council which has been serving as the country's interim Parliament pending elections scheduled by Mr. Binaisa for December will have 'the powers to make laws." But these will require the assent of the Military Commission.

Mr. Edward Rugamayo, the council's chairman who opposed the coup, is expected to lose his post because of a clause in yesterday's proclamation which bars former members of Idi Amin's Government from holding office. Mr. Rugamayo was Education Minister in the early part of Amin's rule.

Other clauses strip Mr. Binaisa of all authority and indemnify Tanzanian and Ugandan troops from prosecution for post-coup activities carried out as part of their duties.

Ugandans have yet to be told of the Arusha talks, which were seen by most observers as *de facto* recognition by President Nyerere of the new régime. Over 11,000 Tanzanian soldiers and policement are still in Uganda. Neither local newspapers nor radio nor television referred to the meeting, attended by Mr. Mwanaga and three other Commission members.

Of the 30 members of the Cabinet, half have ties with Dr. Obote's Uganda Peoples Congress, the country's ruling party until he was deposed by Idi Amin in 1971.

Lisbon and U.S. discuss carrier port

By Jimmy Burns in Lisbon

PORTUGAL AND the U.S. are to start negotiations soon on the possible stationing of aircraft carriers in a Portuguese port.

Confirming this, officials in Lisbon say that in preliminary talks the two Governments differed over the most suitable site. Portugal has also made clear that it wants substantial recompense, mainly in the form of new equipment for its armed forces.

The U.S. sees Lisbon as the most suitable port for the carriers. The deep water Tagus estuary has been used f requently by fleets of the North Atlantic Treaty Organisation. The U.S. believes that carriers based there would provide a logical back-up for its existing airbase and anti-submarine listening post in the Azores.

'rtugese officials would prefe e use of the port of Sines, 1(miles south of Lisbon.

CDU still backs Strauss despite poll setbacks

BY ROGER BOYES IN BERLIN

SENIOR MEMBERS of West Germany's Opposition Christian Democrat Party have stressed that Herr Franz-Josef Strauss is not about to be ousted as the main challenger to Chancellor Helmut Schmidt despite recent election setback.

These assurances came on the eve of the Christian Democrat conference in Berlin—the last before the German general elections on October 5. The Christian Democrats suffered sharp losses last week in the North Rhine Westphalia state election, partly because of a vigorous "Stop Strauss" campaign by the ruling Social Democrats. This reinforced the feelings of the Christian Democrats who believed the party should change its official contender.

But Herr Heiner Geissler, the party's general secretary and effective campaign manager, emphasised at the weekend that it would be folly to change horses in midstream.

The same sentiment was voiced yesterday, albeit without enthusiasm, by Herr Ernst Albrecht, Premier of Lower Saxony and an influential voice in the party.

Significantly, no Christian Democrat politician has committed himself to Herr Strauss for the period after the October elections. The assumption is that, if the party loses the election, Herr Strauss will be dropped.

The conference, which opens today, will set out election strategy. It will try to shift the focus away from personalities to the party programme. A more aggressive style of campaigning is to be launched to mobilise uncertain voters.

The party is also planning to set up a team of advisers—a sort of "shadow Cabinet"—which should allow the party to address specific issues in detail.

West Berlin police said yesterday that they were expecting a big anti-Strauss demonstration during the CDU party conference.

Martial law imposed in S. Korea

BY RON RICHARDSON IN SEOUL

THE ARMY took effective control of South Korea yesterday, with the imposition of countrywide martial law, following violent student demonstartions last week.

All political activities have been outlawed and two of the main contenders in presidential elections due next year, and more than 10 other politicians, have been arrested. The army is to investigate allegations against them either of corruption or inciting student unrest.

About 100 student leaders who helped organise a demonstration by 50,000 students in the capital last Thursday are also in detention, along with journalists and civil rights activists.

President Choi Kyu Hah promised last night that the crackdown by the army would not affect the promised writing of a new democratic constitution and the holding of elections. He made no mention of advancing the timetable for reforms which was one of the main demands of the students.

The martial law decision extended a decree imposed immediately after the assassination of President Park Chung Hee last year.

The civilian Cabinet has remained in office, but the effect of the martial law extension is to short-circuit its authority. Gen. Lee Hui-Sung, the martial law commander, is now responsible only to the President.

Washington, which maintains 30,000 men in Korea, is believed to be angry over what it sees as an unnecessary asumption of power by the military and a setback to attempts to elect a broad-based Government to replace the régime of President Park.

Among those arrested are Kim Dae Jung, a former rival of President Park and a leading contender for next year's Presidential election. The dissident leader was only released from four years' jail or detention after Park's assassination.

Violence was reported from Kim's home town of Kwangju in the South-west yesterday as police clashed with youths protesting against the new regulations. Dozens of people were reported to have been injured.

China fires long-range missile

BY TONY WALKER IN PEKING

CHINA yesterday successfully launched a long-range missile into the Pacific, 6,00 miles from the mainland.

The official news agency said China achieved "complete success" with the launching of what was described as its first carrier rocket. This is believed to be a recently developed three-stage rocket.

According to reports from the impact area, a large fleet of Chinese ships monitored the missile test. Only one firing was mentioned in the brief despatch.

China anounced last week that it would carry out missile tests between May 12 and June 10. It said the missile would be launched into an area bounded by the Solomon Islands, New Hebrides, Fiji and Tuvalu.

Several countries, including Japan, have criticised the test.

China has released no details of the carrier rocket used, but it is thought to be the CSSX-4 which the Chinese have been developing since 1975.

Afghans in conference surprise

By David Housego in Islamabad

THERE WAS a stir on the first ful working day of the Islamic Foreign Ministers' conference in Islamabad yesterday when leaders of the Afghan insurgent movement appeared at the plenary session as members of the official Iranian delegation.

Mr. Sadeq Qotbzadeh, Iran's Foreign Minister, said Iran had sought permission from Pakistan for the eight Afghans—mostly drawn from the National Alliance for the Liberation of Afghanistan which links the main insurgent groups—to be included on the Iranian list.

Mr. Qotbzadeh was clearly amused by the surprise he had engendered by getting the eight turbanned figures into the conference hall. There had been some debate as to whether they would be invited to the plenary sessions and in what capacity. Pakistani officials pointed out that they had no right to challenge the Iranian delegation's credentials and were anxious in private to disassociate themselves from the vigorous backing for the insurgents from Iran.

No protests were made by the pro-Soviet group, which includes Syria and Libya.

Britain accused of using NICs as protection lever

BY BRIJ KHINDARIA IN GENEVA

AILING British industries are using the Third World's Newly Industrialised Countries (NICs) as "a ready scapegoat" to obtain protectionist foreign trade policies, although such nations are only an "insignificant source of structural problems in Britain."

This is one of the main conclusions of a report prepared by Britain's Overseas Development Institute (ODI) for the International Labour Organisation (ILO) to be discussed at a four-day symposium here starting today.

The 82-page report points out that job losses due to cheaper imports from NICs were far fewer than those caused by domestic productivity increases or by imports from other industrialised countries in sectors, such as textiles, leather goods, and footwear.

The real problem is not that imports from the NICs are causing unemployment in Britain, but that other industries are not growing quickly enough to absorb the newly unemployed. This sluggish response to economic change has fuelled political resistance to additional unemployment and prompted trade unions to oppose freer international trade.

For example, only about 30,000 jobs were lost in the textile sector between 1970 and 1975 because of imports from NIC compared with about *120,000 jobs lost due to productivity increases.*

Yet, both employers and trade unions put sharp pressure on government to get a protectionist Multifibres Agreement (MFA) which currently rules international trade in textiles.

While general employment levels are not affected significantly by imports from NICs, particular subsectors have been severely hurt such as the textile industry's men's shirts and hosiery sections. The political *impact is considerable* because disrupted subsectors are usually located in poorer regions and employ mainly low-paid manual workers including many women.

Among factors adding to the vulnerability of Britain's manufacturing industries are the use of out-dated machinery and work methods, inflexible labour practices, and the ineffectiveness of managers in organising and monitoring the use of resources to encourage innovation, the report says.

Pressure from cheaper imports *will continue to grow,* and domestic textile interests are likely to press for a stiffening of the MFA when it is renewed in 1981, the report says.

The Government's effort to bail out BL is a gamble because it may turn out to be little more than a postponement of the final demise of British Leyland, together with most of Britain's component industry."

The greatest danger seems to be that existing protection against imports from Japan might then be extended, and the car industry might become a chronic invalid like the leather goods and textile industries.

Dutch bank says export credit rates too low

By Charles Batchelor in Amsterdam

THE MINIMUM rates of interest for export credits agreed by the Organisation for Economic Co-operation and Development (OECD) have become unrealistic in the light of high world rates of interest, said the Dutch Export Credit Bank. Yet despite the growing gap *between the OECD and real* rates of interest, the bank added, more and more countries are demanding their imports be financed at the minimum rate.

The OECD-agreed rates were meant to prevent exporting countries undercutting each other in offering favourable export credits. The rates are 7.25-7.75 per cent for two- to five-year credits and 7.5 to 8 per cent for longer periods. The rate is adjustable within these margins depending on the degree of economic development in the recipient country.

Governments keen to stimulate their exports are also beginning to treat the minimum levels as an automatic basis for agreement, said Dr. W. J. Ford, manager of Export - Financiering - Mij (EFM). Malaysia, Algeria, Thailand and the Eastern European countries in particular press for the minimum rate while the UK, Belgium and West Germany are under the most pressure to accept it.

This has meant that the matching fund set up by the Dutch Government to help exporters meet unfair competition from abroad seems set to become a permanent feature. The fund provided a record amount of aid last year, paying out Fl 41m (£9.6m) to assist 39 orders worth a total of Fl 1.3bn (£300m).

NOMURA REPORT FOR JAPAN

Industrial restructuring needed

BY CHARLES SMITH, FAR EAST EDITOR, IN TOKYO

BOOKS about Japan by foreign authors often seem to have an axe to grind. One could divide into two neat piles those works which seem determined to prove that the Japanese are supermen who can show us how to run our economies if only we will listen, and those which explain why Japan's achievements are overrated or due to unfair advantages.

Books on Japan by Japanese authors are less liable to grind axes, but are also less likely to be available in English. That is why the Nomura Research Institute's (NRI) Prospects for Japanese Industry to 1985* fills such an important gap.

The Nomura book, like many of the best products of Japanese industry, is the result of collective effort. About 20 NRI experts have got together to survey the prospects, over the next five years, for 15 major Japanese industries, divided roughly half-and-half between "old" and "new." Old industries, as the book shows, can be further broken down into those with and without a future. Shipbuilding and petrochemicals fall into the first category while electronics, watches and motors cars belong in the second.

New industries, by definition, are those which Nomura does believe to have a future, but they represent a diverse and in some ways rather disturbingly insubstantial bunch.

Prominent in the list are pharmaceuticals, where Japan is still working hard to close the gap with Western Europe and the U.S., food, leisure and retailing where Japan is still in many ways far behind the West, and computers where a battle royal is in prospect between the leading Japanese manufacturers and IBM.

The framework within which Nomura analyses its selected industries is that of industrial restructuring—in other words the notion that Japanese industry must change the direction of its development if the nation is to survive and remain prosperous in the 1980s. The broad directions of change are towards industries which consume less energy and raw materials, take up less space in the overcrowded Japanese islands and, incidentally, produce more of the optional extras and fewer of the basic necessities of life than Japan's earlier mainstream industries.

What is not implied by the Nomura analysis is that Japan is going to be either more or less of a "menace" to Western industrial economies after restructuring its industries than it is today. In some areas, such as computers, industrial plant and pharmaceutical, NRI sees the Japanese coming up fast while in others (cars and cameras) it can see little reason why Japan should not simply remain as *much on top as it is today. In a* third category of industries, however—food, fashion, retailing—the picture drawn by NRI is of important internal changes which will make Japan more like the West without necessarily releasing a flood of new exports onto Western markets.

NRI does not simply tell us which Japanese industries are going where over the next half decade. It also sheds light on how the restructuring of Japanese industry is carried or likely to *be carried out and on* how good the Japanese are at tackling industrial structure problems.

So far as the past is concerned Nomura obviously feels that the record looks good. The Ministry of International Industry's selection of key industries in the 1950s and 1960s was a remarkably happy one and the institutional mechanisms which helped its selections to become realities worked with extraordinary smoothness.

This does not alter the fact that some industries made mistakes: for example the Japanese machine tool industry got itself into serious difficulties by prematurely overemphasising mass *production. Nor does it mean* that restructuring in the 1980s will be as trouble-free as earlier phases of the process.

The reader may be bewildered by the wealth of detail but he cannot fail to grasp one point—Japan is the second largest market in the world for almost every major product of modern industry from computers to pianos and from aspirins to colour TV sets. That, more than anything else, may explain why Japanese industry matters.

* *Prospects for Japanese Industry to 1985 by the Nomura Research Institute. Two volumes. Published by Financial Times Management Reports.*

Airbus studying fleet expansion

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

AIRBUS INDUSTRIE, the European aircraft manufacturing group in which British Aerospace has a 20 per cent stake, is now studying a wide range of future aircraft programmes, on which decisions are likely to be taken by the end of this year.

These include a new 260-seater version of the A-300 short-to-medium range twin-engined Airbus, called the Series 600, for delivery in 1983-1984. This will be mid-way in passenger capacity between the 200-seat A-310, now under development, and the 300-seat A-300 itself, already in service.

Beyond this, Airbus Industrie is studying a smaller, single-aisle short-range airliner, called the SA-1 (for single-aisle) which will be basically a 132-seat airliner, with a stretched version, the SA-2, seating 162 passengers.

Engines being studied for these twin-engined aircraft include the Rolls-Royce/Japanese RJ-500 and the Franco-U.S. CFM-56 Dash 3 in the SA-1, while the SA-2 will use either the CFM-56 Dash 4 or the U.S. Pratt and Whitney JT-10D-226 engines.

Other new Airbus studies for future aircraft include a very long-range derivative of the A-300, called the TA-11, seating between 210 and 230 passengers, and capable of flying between 5,400 and 6,000 nautical miles. This would have four engines.

Yet another plan is for a "stretched" A-300, that would seat up to 350 passengers, for short-distance travel, called the TA-9. This would be a twin-engined aircraft.

Venezuela oil for Tokyo

TOKYO—Idemitsu Kosan, a leading Japanese oil distributor, and Mitsubishi, the trading company, have signed contracts directly with Venezuela's Government-run Petroleos de Venezuela to import heavy crude oil, AP-DJ reports.

Idemitsu Kosan will import 12,000 b/d between April and December at $25.93 a barrel, while Mitsubishi is going to purchase 20,000 b/d in the same nine-month period at the same price.

France to boost exports to U.S.

BY TERRY DODSWORTH IN PARIS

INDICATIONS that the French trade deficit with the U.S. could rise this year by between 79 and 80 per cent to FFr 25bn (£2.6bn) have prompted M. Jean-Francois Deniau, French Trade Minister, to launch a big export effort in the U.S. market.

M. Deniau has met both French and American businessmen, along with U.S. Government officials, during a visit aimed at trying to stop the deterioration in the French position.

This downturn set in seriously in 1979, when the deficit more than doubled to FFr 14bn and has grown by another FFr 6.3bn in the first three months of this year.

Despite the recent surge in the French investment effort in the U.S., some analysts in France criticise exporters for a lack of determination in tackling the market. Exporters are not flexible enough and fail to provide the proper back-up services, they say.

Among Western nations, France has been one of the less successful exporters to the U.S. for many years, supplying only 2.4 per cent of America's imports in 1979, against 12 per cent from Japan and 3.9 per cent from the UK.

This year, this unfavourable position is being accentuated by the unexpected strength of the French economy, which is encouraging imports of U.S. goods. Conversely, the slowdown in the U.S. economy has put a damper on French exports.

The major part of U.S. exports to France is concentrated on industrial machinery (particularly important at the moment because of the investment surge going on in French industry), electronic goods and aerospace products. But the U.S. is also a big exporter of some food products, coal, chemicals, fertilisers and paper.

France has suffered a setback in some of its traditionally strong export sectors in the last few months. These products include clothing and textiles, and, particularly important, wine, for which France's positive balance went down from FFr 727m in 1978 to FFr 685m last year.

UK to develop Bahrain airport

BY OUR WORLD TRADE STAFF

BRITISH AIRPORTS International, the airport development group formed jointly by the British Airports Authority and International Aeradio, has won a major contract for the preparation of a master plan for the development of Bahrain International Airport.

The completed study will result in a major plan for the development of the airport over the next 15 years.

*BAI will be working in con*junction with Sir Alexander Gibb and Partners and British Airways Associated Companies.

Set up recently, BAI has already undertaken comparable studies of national airport planning in such countries as France, West Germany, Switzerland, Brazil, Australasia, the Caribbean, the Middle East and Africa.

The contract was one of several overseas business deals *won by UK-based contractors* recently Among the others were:

● Troxbrothers, a £1m contract from Mitsubishi Electric of Japan for the supply of motorised, fire-rated dampers for controlling air flow in the Hong Kong mass Transit Railway.

● Ford of Britain, a £750,000 order to supply the Hong Kong Government with 47 Ford Essex V-6, three-litre engine ambulance vehicles. The order brings to 119 the number of similar vehicles bought by Hong Kong in the last two years.

● Redler Conveyors, a £420,000 *contract by Simon Carves to* supply handling equipment for Thailand's largest riverside silo complex being built at Phra Pradaeng. Redler Conveyor is a member of the Brockhouse Group.

SHIPPING REPORT

Tramp ship rates move to new peak

By William Hall, Shipping Correspondent

TRAMP SHIPPING freight rates have moved into new high ground. The General Council of British Shipping's tramp trip charter index (1976=100) rose by 11 per cent in April to a new peak of 275.

A year ago, the index was standing at 149, and in the depths of the shipping slum, in the summer of 1977, the index had dropped to 77.

The U.S. embargo on Soviet grain shipments caused a temporary setback at the start of the year, but this was soon left behind and for most of 1980, tramp shipping rates have been firming. However, there are grounds for believing that dry cargo freight rates may now have reached a plateau

The General Council of British Shipping's tramp shipping indices underline the considerable variations in performance of the various sectors of the dry cargo markets.

In the last eight months of 1979, rates for ships of between 50,000 dwt and 85,000 dwt more than doubled while rates for large bulk carriers of over 85,000 dwt rose by just 8 per cent.

In the first four months of 1980, the position has changed dramatically. Rates for large bulk carriers of over 85,000 dwt have shot up by over 50 per cent while rates for ships between 50,000 and 85,000 have risen by 3 per cent.

Among the smaller ships there are also considerable variations. Rates for small carriers of between 12,000 and 20,000 dwt have risen a mere 4 per cent so far this year, while rates for slightly larger ships (20,000 dwt-35,000) have risen by a fifth.

In the world tanker markets, rates for Very Large Crude Carriers (VLCCs) remain depressed and owners are stung to lay up their ships once again. Shipbrokers E. A. Gibson, report that the going rate for VLCCs Westwards out the Gulf is Worldscale 29 for voyages to the East it is Worldscale 34.

World Economic Indicators

WORLD ECONOMIC INDICATORS
UNEMPLOYMENT

		Apr. '80	Mar. '80	Feb. '80	Apr. '79
UK	000s	1,458.1	1,413.9	1,383.1	1,310.9
	%	6.0	5.8	5.7	5.5
Gerny	000s	825,400	875,900	992,500	875,500
	%	3.6	3.8	4.3	3.8
U.S.	000s	7,265.0	6,400.0	6,300.0	5,900.0
	%	7.0	6.2	6.0	5.8
		Mar. '80	Feb. '80	Jan. '80	Mar. '79
Hod	000s	210.5	227.2	232.4	209.7
	%	4.9	5.3	5.5	5.0
Jap	000s	1,240.0	1,110.0	1,130.0	1,350.0
	%	2.2	2.0	2.1	2.1
Fra	000s	1,415.0	1,390.7	1,377.8	1,341.9
	%	6.2	6.1	6.0	5.8
		Jan. '80	Dec. '79	Nov. '79	Jan. '79
Bum	000s	361.7	366.8	368.2	344.8
	%	9.1	9.2	9.2	8.6
It	000s	1,681.0	1,662.9	1,623.0	1,730.6
	%	7.8	7.7	7.5	8.0

LEGAL NOTICES

THE COMPANIES ACTS 1948 TO 1967

EVANEEN LIMITED

NOTICE IS HEREBY GIVEN that the Creditors of the above-named Company are required on or before the 18th day of June 1980, to send their names and addresses and the particulars of their debts or claims, and the names and addresses of their Solicitors if any, to Keith David Goodman, FCA, of 3/4 Bentinck Street, London W1A 3BA, the Liquidator of the said Company, and, if so required by notice in writing from the said Liquidator, are by their Solicitors, or personally, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 7th day of May 1980

K. D. GOODMAN, Liquidator.

HOUSE OF LEATHER LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 293 of the Companies Act, 1948, that a *Meeting of the creditors of the* above Company will be held at the offices of Leonard Curtis & Co., 3/4 Bentinck Street, London W1A 3BA, on Thursday the 22nd day of May 1980, at 12 o'clock midday, for the purposes provided for in Sections 294 and 295.

Dated the 7th day of May 1980.

A. HICKLING, Director.

THE COMPANIES ACTS 1948 TO 1967

M. & C. ROSENBERG LIMITED

NOTICE IS HEREBY GIVEN that the Creditors of the above-named Company are required on or before the 18th day of June 1980, to send their names and addresses and the particulars of their debts or claims, and the names and addresses of their Solicitors if any, to Keith David Goodman, FCA, of 3/4 Bentinck Street, London W1A 3BA, the Liquidator of the said Company, and, if so required by notice in writing from the said Liquidator, are by their Solicitors, or personally, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 7th day of May 1980.

K. D. GOODMAN, Liquidator.

R.P.R. ASSOCIATES (PRINTERS) LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 293 of the Companies Act, 1948, that a Meeting of the creditors of the above named Company will be held at the offices of

LEONARD CURTIS & CO.,
situated at 3/4 Bentinck Street,
London W1A 3BA,

on Tuesday the 27th day of May, 1980, at 12 o'clock midday for the purposes provided for in Sections 294 and 295.

Dated the 12th day of May 1980

PETER G. SINGLETON, Director.

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Generous Baggage allowance	✓	✓	✓	✓
Separate check-in facilities			✓	✓
Free meals	✓	✓	✓	✓
Choice of menus			✓	✓
Superb cuisine – created by award-winning chefs				✓
Free drinks (excluding champagne)			✓	
Unlimited free bar service				✓
Finest vintage wines selected by connoisseurs				✓
In-flight film and music £1.50 extra	✓	✓		
In-flight film and music free			✓	✓
Reduced rates for children		✓	✓	✓
Free magazines and newspapers			✓	✓
Free eyeshades and slipperettes			✓	✓
Hot towels			✓	✓
Armchair comfort and luxury ambience				✓
Guaranteed seat		✓	✓	✓
Immediate booking facility			✓	✓
Advance booking facility		✓	✓	✓
Ability to change or cancel reservation			✓	✓

*Fares shown are current fares to New York. Tourist and Club fares vary according to dates of travel. No surcharges are applied to any fare after it has been paid in full.

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UK NEWS

Last-minute bid to amend Housing Bill

BY ELINOR GOODMAN

FIVE TORY MPs for London constituencies are making a last-minute bid today to persuade the Government to amend the Housing Bill.

They want the particular problems of inner urban areas to be taken into account.

At the end of a campaign to change the Bill more radically, the deputation is likely to concentrate today on the more limited aim of improving control private tenants and leaseholders have over their service charges.

Last week the group, led by Mr. Nicholas Scott, MP for Kensington and Chelsea, was given the strong impression that the Government was not prepared to accept any of its amendments.

But on Friday, Mr. Scott was invited to the Department of the Environment again. This raised the group's hopes that the Government at least may be prepared to go on record as acknowledging the particular problems of London flat-dwellers and more general problems created by the London housing market. The group feel this would be a useful indicator.

The Bill, which reaches its third reading today and tomorrow, provides, among other things, introduction of shorthold tenancy agreements. These the Government hoped will increase rented accommodation coming on to the market.

Some London Conservatives lobbyied for such a scheme for some time, but the group of five argued that the Bill did not do enough to help private tenants or leaseholders in mansion-blocks. Because of this the group has put down its own amendments. It is unlikely that any of the amendments could be carried, even with Labour support.

The group's main hope of changing the Bill has rested therefore largely on persuading the Government to accept its amendments. Ministers made it clear some weeks ago that they were not prepared to go along with major changes proposed by London Members. For this reason the MPs concentrated their efforts last week on trying to give leaseholders the right to challenge a landlord's assessment of service charges.

Hugh Routledge

Steam is making a comeback on Britain's canals. Fifty years after the last steam narrowboa finished trading, the steam-propelled President with its butty, Northwich in tow, set sail from Birmingham yesterday. The President, which used to operate an express canal service (London to Birmingham 54 hours non-stop) has been restored to its original condition, and is heading for the British Waterways museum at Stoke Bruerne.

Forests suffer £1m fire damage

FINANCIAL TIMES REPORTER

FOREST FIRES have caused more than £1m worth of damage in the last five weeks, according to the Forestry Commission. And it has warned that the total number of fires this summer could be higher than during the 1976 drought.

In the Peak District National Park, five fires were still burnning yesterday and a park spokesman said: "We have lost more than we lost during the summer of 1976, and we have closed more than 70 square miles to the public."

In North Wales, firemen were confident that they had beaten the 500-acre Snowdonia forest fire which has been burning since Thursday, but they were still busy dealing with gorse fires in Gwynedd.

About 3,000 acres ahev so far been destroyed by fire, compared with the 6,000 acres which were destroyed during the whole of the 1976 drought. Fires have been ranging in the Snowdonia, Exmoor, Dartmoor and Peak national parks, the New Forest and North Scotland.

The Forestry Commission has closed several forests judged to be at risk in North Scotland, the Lake District and in Derbyshire and Yorkshire, and has launched a campaign to persuade the public not to visit forests during the hot dry weather.

The commission and farmers blame the fires on the public's carelessness. They argue the most common cause of fires is people forgetting to put out cigarettes and leaving them to smoulder in dry grass.

The National Water Council has discounted claims that the country is facing water shortages on the scale of the 1976 drought.

Rainfall during February, March and April was 20 per cent above the seasonal average, reserves are currently at high levels.

Hose pipe bans, however, have been introduced in North Devon and parts of Cumbria and the Welsh Water Authority is to introduce a similar ban this week.

Liberals allow Steel latitude

LIBERAL ACTIVISTS gave their party leader the freedom he wanted at the weekend to negotiate with Labour dissidents about the possibility of forming close electoral alliances at the next election if the occasion arose, *writes Elinor Goodman.*

But the 200 delegates at the Liberal Council's weekend meeting in Worcester also made it very clear that they would expect to be consulted by Mr. David Steel before he entered into an ogreement with the grouping outside the Liberal Party.

The debate over a lengthy motion showed that Liberal activists are determined the Liberal Party should not go into the business of throwing out lifelines to MPs disowned by other parties.

The clear warning to Mr. Steel was that the party would make trouble if he agreed on their behalf that Liberal candidates in a particular area were to leave open the centre ground for a person like Mr. Roy Jenkins, President of the European Commission.

Such a decision, Mr. Steel promised, would be entirely one for the local party.

The general feeling among delegates seemed to be that the talk about the possibility of Mr. Jenkins and others joining forces with the Liberals to form a new centre party had put the wrong perspective on the situation. Nevertheless, they eventually rejected the parts of the motion which would have tied Mr. Steel's hands.

Instead, they passed a general resolution extolling the radical and independent traditions of the Liberal Party.

Call for state industry Ministers

BY ROBIN REEVES, WELSH CORRESPONDENT

THE NEXT Labour Government should consider appointing a Minister as chairman of each nationalised industry, including the Bank of England, Mr. Tony Benn, MP, said at the weekend.

He told the Welsh Labour Party's annual conference in Swansea that by the time Labour was returned to poweor, three to four million would be unemployed. The new Administration would face as big a challenge of economic reconstruction as the 1945 Atlee Government.

"It will require a massive planning job to get the unemployed back into factories and the key will be the public sector," he said.

Nationalised industries would need to be expanded and modernised. Parts which had been sold off would have to be brought back to the public sector, without paying twice for public assets which the nation built up, he warned.

A new approach was needed, Mr. Benn said. Successive Governments and chairmen had, in effect, killed off the Herbert Morrison concept of a public corporation. The tasks which would be required of the public sector could not be entrusted to the present unaccountable system of management.

Mr. Benn said a Minister in charge of each nationalised industry could chair a management board with a deputy chairman and chief executive answerable to him. He ougt also to chair a tripartite committee on which he would sit with the management and unions and other Ministers to plan the strategy.

Call for jail sentence

By Raymond Hughes

AN ATTEMPT to have tax avoidance expert Mr. Roy Tucker jailed for alleged contempt of court will be made in the Court of Appeal this week.

The application, by the Inland Revenue, stems from its raids on the homes and offices of people connected with the Rossminster Group last July. Large quantities of documents were seized

The Queen's Bench Divisional Court rejected a challenge to the seizure, but in the Court of Appeal, Lord Denning sharply criticised the Revenue's action and ordered the return of all the documents.

At that hearing Mr. Tucker and his associates undertook to hand the returned documents back to the Revenue if the Revenue won an appeal to the House of Lords. They also undertook to keep the documents where the Revenue had found them at the time of the raids.

In December the Law Lords allowed the Revenue's appeal and the Revenue now contends that Mr. Tucker has broken his undertaking to return the documents.

'Unclear future' for Stock Exchange

BY CHRISTINE MOIR

THE FUTURE structure of the Stock Exchange was "very unclear," Mr. Nicholas Goodison, the chairman, said at the annual conference of the National Association of Pension Funds in Brighton at the weekend. It was under extreme pressure politically, economically and commercially, he said.

A profound change might occur through the EEC Commission, which was considering development of a unified "European securities industry."

Three possible avenues of development were being discussed:

● The market could become fragmented and "go upstairs," meaning that central market places would decay and business be transacted directly between traders by telephone.

● London, the most highly developed centralised market, could find itself in the lead on the basis of its high-technology dealing skills, and international trust in its members.

● A consolidation of the various European markets could be created as a "super-market" for Europe.

Though the EEC Commission favoured this last alternative, Mr. Goodison was sceptical about the possibility, because of the obstacles of overcoming national structures and patriotisms.

Changes were inevitable, and the Stock Exchange needed to be on its toes. Internally also it was constantly evolving, and even fundamentals could change.

The jobbing system was under considerable strain as a result of "thin if not negative markets in equities." At present it still provided valuable liquidity for the market, greater than in any market outside New York and Tokyo.

If the jobbing system "proved to be uncompetitive in three, four or five years, we would have to change the dealing system."

Technological changes were likely. Already transactions were settled and information about them was carried by computer, but Mr. Goodison foresaw a time when "even some dealings" could be computerised.

Progress on Dash 535

THE DEVELOPMENT programme of the Rolls-Royce Dash 535 version of the RB-211 engine, destined for the new Boeing 757 twin-engined airliner for British Airways, is gaining momentum.

The company says that over 1,000 hours of test running have been completed with the engine at Derby, with fuel consumption within the guarantees offered customer airlines.

Thests have been conducted on seven engines, and an eighth engine has recently joined the programme. One 150-hour endurance test has been completed, and another starts soon.

The first engines for the Boeing 757 are due for delivery to Boeing next year.

Orders and options for 91 aircraft, each powered by two Dash 535 engines, have been placed with Boeing.

Bread boost

BREAD was the most energy-efficient item made by industrialised food producers, said a researcher at Ranks Hovis McDougall, the bakery group. Dr. Gordon Beech said the bread needed only 1.5 fossil fuel calories per food calorie, against eight for mashed potato, nearly 11 for roast beef and 14 for canned corn.

National Savings up

NATIONAL SAVINGS had a more than £100m net intake in April, with deposits of more than £310m and repayments of £207m, both including accrued interest. Best contribution was £76.6m from the 19th NS certificates issues. But there were net outflows of £13.3m from the ordinary bank account and £6.9m from investment account. Total invested in NS at April's end was £13.55bn (£11.79bn, April, 1979).

'Abolish NEB'

ABOLITION of the National Enterprise Board is called for in a book published today by the Centre for Policy Studies. It was commissioned before the General Election when Sir Keith Joseph was chairman of the centre, set up by him and Mrs. Margaret Thatcher. It recommends large-scale disposals of NEB holdings and handing over BL and A. Herbert to the Department of Industry.

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UK NEWS

Concern over egg imports

BY RICHARD MOONEY

A FLOOD of cheap Continental eggs into Britain could drive more UK producers into bankruptcy next autumn and winter, the Eggs Authority has warned.

Most British egg producers are only breaking even and indications that farmers in other EEC countries are stepping up production again are viewed with concern.

UK producers have been trying to avoid over-production. "In February, the UK was the only EEC country not to show an increase [in placing laying chicks in egg factories] over its 1979 level," the authority said.

Total EEC placings were down seven per cent in 1979 but an upward trend started in the last quarter. February placings rose 13 per cent over 1979. Meanwhile UK placings have remained stable.

Accelerating chick placings are likely to mean lower-than-expected egg prices throughout the Common Market this autumn and winter.

'Work safety is industry's duty'

BY DAVID FISHLOCK, SCIENCE EDITOR

MANUFACTURERS MUST themselves assess hazards of processes and materials they used, Mr. John Locke, director general of the Health and Safety Executive, said in London yesterday.

His executive had "not the slightest intention of doing the calculations for them," he told industrialists.

It was necessary for any company engaged in any intrinsically hazardous activity, or using intrinsically hazardous substances, to show that it had done a risk-assessment.

His executive, as a regulatory agency, would audit the assessment.

Mr. Locke was speaking on the 10th anniversary of Systems Reliability Service, an offshoot of the UK Atomic Energy Authority, which undertakes risk-assessments for a wide range of organisations. The UK/AEA has an income of about £500,000 a year for this work.

The Systems Reliability Service is a club of organisations which, for an annual fee, have access to what is claimed to be one of the world's biggest data-banks on reliability of engineering components and systems.

Of its 84 members, 71 are outside the nuclear industry, many from what by nuclear standards are seen as low-risk industries.

Mr. Locke said that the Health a ndSafety Executive, in questioning safety, as often as not looked to the UK AEA for assistance. "I am quite certain this is the way in which we shall develop," he said.

Questions about chances of a process going wrong and hurting someone were important, not only because they would reduce the number of serious incidents but because a whole range of activities now depended on public confidence that the operator had got the risks under control.

Nuclear risks were several orders of magnitude lower than other kinds of industrial risk, said Mr. Locke. His executive was not sure that it was right in pressing the nuclear industry to meet safety standards much higher than any other industry but public opinion expected it.

The Health and Safety Executive is a division of the Department of Employment.

Lightning tests for longevity

By Michael Donne, Aerospace Correspondent

BRITISH AEROSPACE, the State-owned aircraft manufacturer, is starting a nine-month test programme to determine whether the Lightning supersonic fighter can have its in-service life extended.

As a result of the Government decision to expand UK air defences, an additional Lightning interceptor squadron is being formed from reserve aircraft stocks to complement the two existing squadrons.

These aircraft will have to be in service for longer than originally expected, until the specialist Air Defence Variant (ADV) of the Tornado multi-role combat aircraft enters service in the mid-1980s.

The aim of the strenuous fatigue tests now to be conducted on a Lightning is to discover whether the aircraft need structural alterations, as it will now be expected to fulfil roles more arduous than those for which it was designed more than 20 years ago.

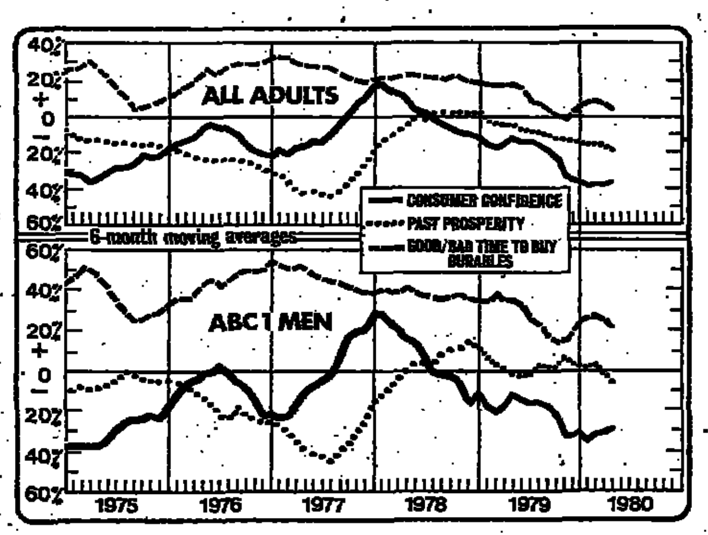
Today's operational need is for increased flying at very low levels. This is believed to be the most likely form of attack by aircraft approaching the UK via the North Atlantic, but throws considerable strains on any aircraft's structure. The Lightning was initially designed for high level interception.

The BAE's Aircraft Group designers and engineers at Warton, Lancashire, where the tests will be undertaken, believe they can buil dany necessary modifications into the Lightning, to mee the increased strength and life required.

FT SURVEY OF CONSUMER CONFIDENCE

Sharp rise in optimism

By David Churchill, Consumer Affairs Correspondent



A SHARP RISE in consumer optimism is revealed in the latest Financial Times survey of consumer confidence published today.

The index of future confidence rose by 11 per cent to minus 26 per cent, the highest level for a year. The survey of just over 1,000 adults showed that 16 per cent expected conditions to improve, compared with 13 per cent last month, while 42 per cent thought that conditions would worsen, compared with 50 per cent in April.

Although the May index of minus 26 per cent is at a historically low level, the rise in confidence this month suggests that the slump in consumer confidence in the past year has "bottomed out."

Since the index figure of plus 9 per cent in May last year—shortly after the Conservative's General Election victory—the index has slumped to the lowest recorded levels in its 10-year history. It stood at minus 46 per cent in February.

In spite of the sharp improvement in confidence in May, however, the six-monthly index, which gives the trend over the last half-year, has only dropped one point to minus 37 per cent.

The main reason for the rise in confidence in May was a fall in the number of pessimistic consumers who felt the Government should be blamed for following the wrong policies.

Last month this was given as a reason by 28 per cent of pessimistic consumers, compared with only 17 per cent this month.

The high level of inflation, however, remained the main reason for pessimism. This was cited by 40 per cent of consumers, a rise of one point.

The main reason for consumers' optimism was simply the belief that "things must improve."

While all social groups were generally more optimistic for the future, the biggest increases were revealed for AB and C1 women (professional and executive) and C2D and E men (manual workers). Both these social sub-groups recorded their highest indices of future confidence for a year.

But while future confidence has risen sharply, the level of past prosperity has shown an equally sharp decline. In May some 22 per cent of the survey felt that they were better off than a year ago, compared with 47 per cent who thought they were worse off.

This gave an index of minus 25 per cent—its lowest for almost three years—compared with minus 14 per cent last month.

The Financial Times Survey of Consumer Confidence was carried out between May 1 to 8 by the British Market Research Bureau. A sample of 1,012 adults was interviewed.

Coal will supply motor and jet fuel, Ezra predicts

BY RAY DAFTER, ENERGY EDITOR

WITHIN THE next two decades British coal will be providing petrol for motorists and jet fuel for aircraft, according to Sir Derek Ezra, chairman of the National Coal Board.

Sir Derek told delegates at an international energy conference in Montreux, Switzerland, yesterday that before the end of the century coal would also be providing essential feedstocks for chemical plants.

He predicted that commercial-scale coal refining would begin to operate in the UK during the 1990s. With continuing increases in oil prices, liquid products from coal would become increasingly competitive before the end of the century.

After referring to coal processing developments in South Africa, the U.S. and West Germany, Sir Derek said that the UK was proceeding well with new technologies for coal refineries. Successful research and development at the Coal Board's Coal Research Establishments at Stoke Orchard, near Cheltenham, would work available this summer all the information necessary for a decision on the next stage of a more ambitious pilot plant.

A convenient site to process coal from different coalfields had been chosen at Point of Ayr, North Wales. However, the venture would need financial support from the British Government and the European Community. The total cost of such a scheme would be about £30m, it is understood.

Sir Derek outlined the timescale for pilot plant operations. Design and construction phases would take two years while a further three years of operating experience would be required to prove the capability of new coal-refining technology.

City fraud increases

THE City of London Police fraud squad report for 1979 says that in the year they dealt with allegations of major frauds involving about £30m. Indictable City crime increased by 13.2 per cent over 1978.

Mr. Peter Marshall, City Police Commissioner, writes in the report of the difficulties encountered in fraud inquiries and the length of time it takes to bring complex cases before courts.

A large proportion of the squad's work involves international cases and officers were often required to travel abroad for evidence necessitating the permission of the countries involved.

TUC urged to act over Isle of Grain laggers

BY ALAN PIKE, LABOUR CORRESPONDENT

URGENT TUC action to prevent members of other unions taking over the work of thermal insulation engineers at the Isle of Grain power station site was demanded yesterday by Mr. David Basnett, general secretary of the General and Municipal Workers' Union.

Mr. Len Murray, TUC general secretary, has already received a call for intervention from the GMWU—which represents the engineers. It will be considered today.

Mr. Basnett, speaking in Bournemouth on the eve of his union's conference, at which the Isle of Grain dispute promises to be a very live issue, attacked "provocative statements" by other unions which were, he said, deliberately taking over the jobs of the engineers, or laggers.

In London, Mr. Frank Chapple, general secretary of the Electrical, Electronic, Telecommunication and Plumbing Union, said yesterday: "There is no way I will agree to electricians getting half the wages of the laggers, no way at all."

The third union whose members are involved in the dispute—the Transport and General Workers' Union—made no comment yesterday in advance of the TUC's intervention. However, it is also thought to be unhappy with the open-ended bonus arrangement presently enjoyed by the laggers.

The GMWU executive has given Mr. Basnett full authority to take whatever action be considers necessary to protect the interests of the union's members at the Isle of Grain.

This could include widening the dispute unless the increasingly serious inter-union disagreement can be calmed down by the TUC's internal machinery.

Mr. Basnett said that the moves by other unions to take over his members' work were contrary to clear TUC advice. The GMWU had complied with this advice but other unions had not.

More than 20 laggers are now being trained by the two main contractors—the General Electric Company (GEC) and Babcock Power—in spite of the presence of GMWU pickets at the gate.

Both the EEPTU and the TGWU are convinced that the Central Electricity Generating Board would fulfil its threats to stop work on the site if work cannot be restricted.

HIs union was willing to follow a TUC recommendation and negotiate with the Central Electricity Generating Board but the board had refused to negotiate.

"We have asked the TUC to intervene to stop these practices which can do nothing but harm to the trade union movement. We have always been—we still are—anxious to negotiate.

"But the atmosphere is hardly helped by the actions and words of other unions who are breaking with all trade union traditions in taking over the skilled work of othe runions' members, refusing to follow TUC advice and engaging in public slanging."

Textile union loses members

POOR TRADE, due mainly to textile imports, caused loss of 2,000 members from the 57,000-strong National Union of Dyers, Bleachers and Textile Workers in the past year, delgates to the union's conference at Southport were told yesterday.

One of those made redundant was Mr. Les Herd, the Union's president. In a warning about the "alarming" redundancy rate in the woollen industry, Mr. Herd said that among factories closing were some which had been completely modernised.

The conference resolved that the agreement restricting overtime to 11 hours in a 40-hour week should be strictly maintained in an effort to safeguard jobs. It backed a demand for a "substantial" pay rise without naming a target figure.

● IPC DISPUTE: Talks between the management of the International Publishing Corporation and chapel officials of the National Union of Journalists resume today in an effort to settle a dispute in which most of the group's magazines and the 1,500 journalists working in its business Press, magazine and book publishing divisions were suspended.

Mr. John Pearson, secretary of the NUJ group chapel, said that the union saw the talks as an opportunity to find out the management's terms for resumption of work. The union claims back pay for the three weeks of suspension. IPC says it will negotiate on this as part of general wage negotiations.

● TECHNOLOGY TALKS: A further attempt to agree on ground rules for introduction of electronic news gathering equipment into Independent Television News begins tomorrow after the strike by members of the Association of Cinematograph, Television and Allied Technicians last week.

ITN said yesterday that both sides had fully accepted that the talks should proceed rapidly and agreement be reached by the end of June. ITN would then be the first major UK company to use the system, though three small ITV companies, Tyne-Tees, Grampian and Channel, have agreed to use it.

Clegg error talks planned

BY JOHN LLOYD

NEGOTIATORS for the management side of the Burnham Committee, covering primary, secondary and further education, will meet in London on Thursday to discuss hte implications of the error made by the Clegg Commission in its report on eachers pay.

This has resulted teachers accepting an offer four per cent higher than it should have been.

The error is likely to have a direct effect on the current negotiations on teachers pay, which have been referred to the Advisory, Conciliation and Arbitration Service (ACAS).

The local authority members of Burnham will tell ACAS that the "overpayment" by Clegg should mean that the award recommended by the arbitartors is 4 per cent lower than it would otherwise be.

The negotiations were referred to ACAS as the management side were offering 13 per cent while the teachers claimed a 20 per cent rise.

The mistake in the report, which is thought to have been made because of the complexity of teachers' payments coupled with the inexperience of the Clegg secretariat—the Office of Manpower Economics—in dealing with the sector, is likely to increase the already considerable pressure on and in Government to scrap the commission.

Last week in the Commons, a Bill introduced by Conservative MPs under the 10-minute rule calling for the abolition of the commission was passed by a large majority.

Thatcher 'misled' House on cuts

BY PHILIP BASSETT, LABOUR STAFF

THE PRIME MINISTER "seriously misled" the House of Commons last week when she announced the Government's latest round of Civil Service manpower cuts, Mr. Ian Wrigglesworth, Shadow Civil Service Minister, said yesterday.

Senior Whitehall officials will today be examined on details of the cuts by the all-party Commons select committee on the Treasury and Civil Service.

The cuts are also likely to come in for heavy criticism at the annual conference of the Society of Civil and Public Servants, the second-largest Civil Service union, which opens tomorrow.

Mr. Wrigglesworth told a Labour Party meeting in Middlesbrough that Mrs. Thatcher had not made it clear enough that many of the cuts to 75,000 posts over the next four years had already been announced .

So "the statement was nothing more than a cheap propaganda exercise, once again using the Civil Service as a convenient political football and a scapegoat for the failure of Government policies."

Mr. Wrigglesworth said the only conclusion to be drawn was that the Prime Minister was more interested in cheap political gimmickry than in seeking genuine improvements in the efficiency of Government services.

As head of the Civil Service, Mrs. Thatcher now had a responsibility to show how the cuts would be implemented in individual departments, to give a full breakdown of the cost involved in hiving off Government services to the private sector, and to spcify exactly which services were to be either reduced substantially or ended completely as a result of the cuts, and whether legislation was to be introduced to wind up any Government activities.

Parliamentary business this week

TODAY

COMMONS—Housing Bill, remaining stages. Dental Qualifications (EEC Recognition) Order.

LORDS—Transport Bill, commitee. Dental Qualifications (EEC Recognition) Order.

SELECT COMMITTEES — Energy. Subect: Government's nuclear power programme. Witnesses: South of Scotland Electricity Board, Scottish Office. 4.15 p.m. Room 6. Treasury and Civil Service. Subect: Efficiency of the Civil Service. Witnesses: Civil Service Department, Department of Health and Social Security, Department of Environment, Ministry of Defence, Inland Revenue. 4.30 p.m. Room 15. Public Accounts. Subject: Treasury Minute and inclusion of estimate figure in Appropriation Accounts, and National Insurance error in accounting for attendance allowance. Witnesses: Department of Health and Social Security. 4.45 p.m. Room 16.

TOMORROW

COMMONS—Housing Bill, remaining stages. Upholstered Furniture, Safety) Regulations.

LORDS — Employment Bill, second reading.

SELECT COMMITTEES — Foreign Affairs, Overseas Development Sub-committee. Subect: Development Divisions. Witnesses: Overseas Development Administration of the Foreign Office. 5 p.m. Room 15.

WEDNESDAY

COMMONS — Social Security (No. 2) Bill, remaining stages.

LORDS—Short debate on multi-coloured blind. Short debate on conservation of Antarctic marine living resources. Trees (Replanting and Replacement) Bill (HL), committee. Short debate on wire-tapping.

SELECT COMMITTEES—Education. Subect: Courses in higher education. Witnesses: Lord Harris of High Cross, Mr. Alan Maynard, Maureen Woodhall, Prof. C. T. Sandford, Lord Robbins, Sir Charles Carter. 10.30 a.m. Room 6. Welsh. Subject: Employment opportunities in Wales. Witness: National Coal Board. 10.30 a.m. Room 16. Agriculture. Subject: Economic, social and health implications for UK of Common Agricultural Policy on milk and dairy products. Witness: Mr. Peter Walker, Minister for Agriculture. 11 a.m. Room 5. Public Accounts. Subect: Consolidated Fund, UK contributions to budgets of EEC. Witnesses: Treasury, Ministry of Agriculture. 4 p.m. Room 16. Transport. Subject: Channel link. Witnesses: European Channel Tunnel Group. 4.15 p.m. Room 17. Social Services. Subject: Public Expenditure on social services. Witness: Mr. Patrick Jenkin, Social Services Secretary. 4.30 p.m. Room 8. Welsh. Subject: Employment opportunities in Wales. Witnesses: Confederation of British Industry, Wales. 4.30 p.m. Room 15.

THURSDAY

COMMONS—Housing Bill, completion of remaining stages until 7 p.m. Consideration of Lords Amendments to Social Security Bill.

LORDS—Edward Berry and Doris Ward (Marriage Enabling) Bill, second reading. Industry Bill, third reading. Upholstered Furniture (Safety) Regulations. Short debate on congestion in public search room at General Register Office.

FRIDAY

COMMONS—House rises for spring adjournment.

LORDS—Royal Assent to Bills. House then rises for spring adjournment.

Building and Civil Engineering

£18m contracts won by Matthew Hall

MATTHEW HALL Mechanical Services has major contracts totalling approximately £18m for work in the commercial, industrial and housing sectors.

The largest of these, at £11m, is for services including air conditioning, electrical, fire engineering, heating and plumbing, in the new Cutlers Gardens Development, London EC2, for Standard Life Assurance Company in conjunction with Greycoat Estates.

This 4½-acre site will comprise both the refurbishment of existing buildings, retaining some of the 18th century facades, and the construction of new, low-rise granite buildings. The complex will provide a wide range of self-contained office units together with squash courts, gymnasiums, shopping arcade, restaurant, executive flats and car parking facilities. Two acres will be landscaped.

Other commercial contracts include building engineering services, valued at approximately £2m, in the new, 10-storey Hammersmith International Centre, London W6 for Sir William Halcrow and Partners, and the major refurbishment of services at Woolgate House, EC2, for The Chase Manhattan Bank, NA, also at £2m.

Two substantial contracts are being carried out at Solihull, West Midlands, for BL Cars. These include heating and industrial piped services for extensions to production facilities, and amenity blocks, and the installation of new heating system boilers and compressors together with associated pipework.

In the housing sector, a major contract for the upgrading of heating systems in some 1,700 dwellings, is now being undertaken for the London Borough of Southwark at their Aylesbury Estate, SE17.

Wimpey wins £10m worth

JUST ON £10m worth of contracts have been won by Wimpey. Two of them, awarded by J. Sainsbury, are together valued at £2.7m. One at Rayleigh Weir, Essex, is for the construction and fitting out of a single storey supermarket plus six sublet shops and car park and external works. The other is for the fitting-out of the Sainsbury supermarket at Dagenham Heathway, part of the Norwich Union Development which is also being carried out by Wimpey.

In Glasgow Wimpey has won a contract worth over £2.2m from Scottish Special Housing Association for the construction of 142 dwellings. The site is at Mauldnfield Road, Parkhead, Glasgow, and the development is scheduled for completion in October, 1981.

Another housing job for the company is for Nottingham City Council for the completion of phases 3 and 4 of the Edwards Lane scheme.

This £1.4m contract calls for the modernisation and repair of 165 dwellings while the residents are in occupation and is due for completion by the end of December.

In the industrial field, Wimpey has won a £2.2m contract from French Kier Property Investments for warehouse units at the Mead Industrial Park, in the Templefields Industrial area, Harlow, Essex, and in Hull the company has been awarded a £1.8m contract by Unilever to cover alteration and modernisation of a building to form a new factory for manufacture of frozen fish products for Birds Eye Foods.

Putting in new installations

REPLACEMENT of boiler plant and renewal of external distribution mains which serve the heating system of the Victoria and Albert, Science, Natural History and Geological Museums in South Kensington, London, is to be undertaken by Young Austen and Young at a cost of over £1m. This is the largest of three building services contracts worth a total of £3m awarded to the company which is a member of the UK Building Division of Trafalgar House.

Old boiler plant is to be replaced by new pumps and water treatment plant will be installed. Consulting engineers are Isherwood, Boyd and Atkinson.

In Queen Anne's Gate, London SW1 an 80-year-old office building is undergoing major refurbishment by Trollope and Colls (City) and for this Young Austen and Young has designed and is installing full air-conditioning and mechanical services. The work valued at £650,000 is for Builders Amalgamated and will be completed by September.

The third project is in Ipswich at Tollemache and Cobbold Breweries' new central distribution warehouse on the Whitehouse Industrial Estate. Young Austen and Young has designed the services which include plumbing, heating, ventilating, installation cold store and kitchen services equipment. This contract which is for Cementation Projects is valued at £250,000.

Douglas gets £5½m worth

AMONG RECENT awards totalling £5½m, won by R. M. Douglas Construction, is a £2.2m workshops and transport depot at Darlaston for Wincanton Transport.

Other work includes a swimming pool at Widnes for Halton Borough Council (value £1m); provision market for Carmarthen District Council (value £935,000); and surface and joint repairs at Thornbridge Viaduct, M6 motorway, for the West Midlands County Council worth £579,000.

£5.8m award to Rush & Tompkins

RUSH AND TOMPKINS is to build a new head office for UK Provident under a £5.8m contract, the building to be known as United Kingdom House. This will be situated at Castle Street, Salisbury, Wilts., and includes an office block on two and four floors; two-storey amenity block with staff restaurant, conference and training facilities.

Full air conditioning and sound reducing windows will be used in the building which will have a gross area of some 91,000 square feet.

Both buildings are to be of reinforced concrete construction on concrete bases with ground beams supporting walls of faced brick cavity construction. Areas of vertically-hung tiling will be used to complement the facing brickwork on the Castle Street frontage.

The reinforced concrete mansards and dormers of the office block will be covered with hand made tiling and leadwork and the flat roof areas will be finished with insulated asphalt.

Amenity block differs in that the roof is to be formed mainly by framed steelwork with steel trusses supporting timber rafters and bearers. Felt clad insulated metal decking will be used for the flat roof area. Plant rooms are to be built in the roof spaces to accommodate the sophisticated machinery necessary for a controlled environment.

External works include a landscaped courtyard surrounded on three sides by the office building, a feature entrance, floodlighting, car parks and drainage.

The construction period is two years.

Irrigation in Bangladesh

FINANCED BY the International Fund for Agricultural Development, is a US$45m project for irrigation in Bangladesh for which Sir M. MacDonald and Partners has been appointed for consulting services in conjunction with Hunting Technical Services and Sarm Associates.

Aim of the first stage of the scheme, in the district of Kushtia, Jessore and northern Faridpur, is the identification of specific development projects based primarily on groundwater irrigation for subsequent implementation as part of an integrated agricultural development plan.

This will include the supply of waetr, fertiliser, seed and credit, and wil lcomprise specific developments concentrating on the smaller farmers. It is also proposed to supply irrigation water to adjacent areas.

£8m store for Tesco

JOHN LAING Construction has won a contract worth nearly £8m for a department superstore, plus a market hall, covered mall, and multi-storey car park, to be built on a site fronting the High Street at Chatham, for Tesco Stores.

Work involves construction of a two-storey building comprising a sales floor and an upper storage floor, topped by a roof car park, providing a total gross floor area of about 10,000 square metres.

A single storey covered market hall with associated storage space will be linked to the superstore by a covered mall. Adjoining the complex will be a six-storey car park with space for up to 506 vehicles.

Construction of the store will be of reinforced concrete frame on piled foundations, with cladding of brick and glass reinforced concrete. The market hall will be of steel frame with a space-frame roof, and the multi-storey car park will be constructed of reinforced concrete with brick cladding.

Work has already started and is due for completion at the end of 1981.

Refurbishing work

WORTH £1.1m a contract has been signed between international pharmaceutical organisation Richardson-Merrel, and Project Interiors International (member of Unilock group) for the complete refurbishment of a major part of the Shell Research Complex at Egham, Surrey, the whole of which Richardson-Merrel has purchased for use as research and development laboratories and offices.

Work has already begun on the four buildings and includes completely stripping out fittings and installing partitions, doors, floors and ceilings, as well as heating, ventilation and electrical services.

£5m Norwest Holst contracts

TWO CONTRACTS, each worth £2m, have been awarded to Norwest Holst by the British Gas Corporation.

These are the largest of several awarded to the group and bring the total to nearly £5m.

The Gas Corporation contracts are for mains and service pipe laying in the Gloucester, Swindon, Bristol, Blackwood, Ebbw Vale and Pontypool districts.

In Scotland, Norwest Holst is building a single-storey residence for handicapped students at Motherwell Technical College (£733,412) while at Canning Road, Southport, Lancs, it is providing bus washing and fuelling facilities for the Merseyside Passenger Transport Executive (£121,620).

On the other side of the world, one of the Group's member companies, McGregor Construction Australia, is reconstructing Railway Parade, Woodford, New South Wales for the Council of the City of the Blue Mountains (A$198,538).

Industrial projects

THE GAMBIA Produce Marketing Board has appointed White Young Project Engineering of Runcorn, in association with Ted Taylor and Associates of Liverpool, as consultant for the overall project management of extensions to its groundnut processing sector—a £3m capital investment financed by the African Development Bank and the European Investment Bank.

Scheme involves new power generation, and seed crushing facilities, with modernised river wharfage, and bulk handling of groundnuts.

Work has started and is due for completion by the end of next year.

Fairclough Design and Project Management has appointed the company to assist in the process and mechanical design for vacuum, cooling water and compressed air services for an £11m low density polyethylene facility for BXL Plastics, at Bromborough, Cheshire.

Emirates cement plant

Fujairah Cement Industries Company has chosen Blue Circle as consultant for the installation of a 520,000 tonne per annum dry-process cement plant in the United Arab Emirates. It is hoped that formal signing of the agreement will be complted within the next two weeks and construction will begin later this year.

The Fujairah Cement Company has placed the supply of equipment contract with Voest Alpine and Co. of Austria. Completion is expected in April 1983.

The consultancy contract, which is a fixed price contract, is worth approximately £1m to Blue Circle, who will act a project manager for the whole of the contract.

Industry's need for good roads

INDUSTRY'S USE of roads is one of the first priorities, declared Mr. Norman Fowler, Minister of Transport, at last week's annual luncheon of the Asphalt and Coated Macadam Association in London. Goods had to get to markets at home and abroad and the industrial routes had to be finished first; this meant above all the M25 orbital motorway round London and the routes to the major ports.

One major consideration was the improvement of the quality of life for people who now lived on these major routes and had to suffer the noise, vibration, danger, and congestion brought by unbroken streams of heavy traffic.

We had to maintain the investment that had already been made and—cutting out waste and unnecessary bureaucracy—the programme had to be carried out as efficiently as possible.

Mr Fowler said that last year his agent authorities spent some £94m on maintaining trunk roads and motorways in England (£7m more than planned by the previous administration). The White Paper on Expenditure pointed out in March this year that we expect expenditure on motorway and trunk road maintenance to continue at broadly the higher level achieved in 1979-80, although the balance between construction and maintenance will be kept under review.

Mr. J. M. Boardman, chairman of the Association and managing director of J. G. Eccles said that although the roadstone industry realised that the immediate future lay in the maintenance of the system which provided unending, essential bread and butter activity, it was presently sadly pessimistic and feels that most people outside the business do not understand or appreciate problems its managements have to face.

Production of coated roadstone was a difficult exercise requiring a high degree of management skills.

DEBORAH PICKERING

Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● IN THE OFFICE

Typewriter has many roles

TOMORROW at the International Word Processing Exhibition at Wembley, Exxon Information Services will launch QYX, described as an intelligent typewriter.

Offering a combination of automatic typing aids and convenience features such as automatic erase backspace, automatic centreing and decimal tab, dual pitch and proportional spacing, push-button type-style changes, and automatic recall of frequently used phrases and formats, QYX provides greater versatility and faster, easier and more productive typing.

QYX is available with upwards compatibility through five levels, upgradable in the office as needs change. As an electronic memory typewriter, floppy disc text editor, single line display text editor, or a communicating text editing system, able to communicate with other equipment from the group, the new unit cuts into every "office of the future" field.

Starting at £1,290 QYX gives capacity for total electronic business communications on every secretary's desk.

QYX will be handled by VYDEC, part of Exxon Information Systems, to offer sharp competition to Olivetti and to IBM in that order.

Further from VYDEC (UK), Carlisle Place, London SW1P 1HT (01-834 9070).

● TEXTILES

Wool carding invention

A NEW mechanical wool carding process, which removes dirt and separates wool fibres without using chemicals and with minimal damage to the fibres, has been developed jointly by staff at Leeds Unievrsity and a Keighley, Yorks., company.

Dr. Bill Oxenham and Mr. Ian Wilson of the University's Department of Textile Industries have collaborated with Sir James Hill and Sons to develop the process. Trials over the past year have shown that the new process will not only enhance the quality of the wool but will also be able to handle fine wools and synthetics with the minimum of fibre breakage.

Since removal of vegetable particles and dirt after fabric production is very expensive, mechanical carding processes hitherto used to deal with contaminated wool have had to be vigorous in action to remove effectively all traces of impurities and they haev therefore tended to damage the fibres and reduce the quality of the wool.

The alternative treatment, which is to use chemicals to dissolve away vegetable matter, also downgrades the quality of the wool and adds to the cost.

The new process substantially avoids these problems, it is stated.

University of Leeds says that with support from the Garment and Allied Industries Requirements Board of the Department of Industry (GARB) and the co-operation of Wm. R. Stewart and Sons (Hacklemakers) of Dundee a full development programme is in progress. The work will quantify the expected lower capital costs, running costs and space and energy requirements in comparison with current wool carding machines.

Patents have been filed in Britain and abroad by University of Leeds Industrial Services and licensees for manufacture of the equipment will be sought during the development programme.

Stitcher is given a brain

LATEST ADDITION to the Trumatic range of automatic stitching machines is the microprocessor controlled sequential feed unit, the System 1650. This is claimed by Trubenised as the leader in its fields and it is also the only machine based on a microprocessor that is of UK development and manufacture.

It has the ability to cover any number of sewing programmes within a single cycle and has a particular value for reducing multi-handling work to a single operation. It offers manufacturers the ability to de-skill the sewing requirement and to obtain uniform results.

This profile stitcher has its own programming unit that can be operating by a non-expert with ease. A dynamic working memory and 85,000 character floppies provides adequate speed. Needle drag is eliminated and stitching accuracy is high.

A measure of its capabilities is an operating speed of 3 inches (75 m) a second on ¼ inch leather. It is equally suitable for work with thick textile materials.

Further details from Trubenised (Sales) at Trubro House, Woolmer Green, Knebworth, Herts. Stevenage 812812.

Parts of any degree of complexity in the size range 10 mm by 10 mm to 1,650 mm x 1,090 mm in quantities from 1 to 1,000-off can be produced at competitive cost within days in the majority of materials encountered in the manufacturing industries and can be readily cut by this laser unit in thicknesses of up o 4 mm for metal, 19 m mfor plastics and 50 mm for wood. Other materials such as rubber, asbestos, reinforced plastics etc. can also be easily cut on the equipment, installed by N. C. Laser Cutting Services at Cark-in-Cartmel, Cumbria. Laser cutting is particularly cost-effective for short production runs as an alternative to press tool cutting. For example, components are at present being produced in quantities of 100 at a cost of £200 per batch. The cost of the same components by press tool cutting would be £1,500 per batch including the cost of the press tool. This aspect of laser cutting is becoming increasingly important as industry moves towards an increase in low volume production of high technology equipment. More on Rochdale 31277

● HANDLING

Coal on a slippery slope

TO SPEED the unloading of hopper cars used to transport trainloads of coal, Uniroyal Chemical Company has an approach that involves spraying the interior surfaces of the hopper cars with a slippery, abrasion and corrosion resistant coating of a urethane formulation called Vibraspray.

Field tests have established that coal, which is often difficult to discharge from open hopper cars in the winter, does not cling to either the sides, slopes or the discharge doors of the car when they are urethane coated, but drops out cleanly. This virtually eliminates the need for costly and time-consuming shaking of the cars. In addition, the Vibraspray release characteristics reduce both abrasion and corrosion and therefore extend the service life of the coal hauling equipment.

The application method for Vibraspray is simple, speedy and solvent-free. A coating of urethane from 15 to 30 mils thick can be laid down in a single pass. It sets up quickly —in 45 to 60 seconds. In addition, because the system is solvent-free, many of the potential toxicity problems usually associated with solvent sprays are eliminated, and in addition, flammability hazards are reduced.

Uniroyal has tested a range of Vibraspray coating thicknesses for efficiency, economics and durability. Optimum thicknesses established to date are 40 to 60 mils for this application.

Although most of the evaluations have been on the unloading of coal, Uniroyal is also assessing the applicability of its Vibraspray technology to other bulk haulage commodities such as rock products and ores.

Uniroyal Chemical Company, Spencer Street, Naugatuck, Conn. 06770, U.S.

● COMPONENTS

Heat level tightly controlled

THERMOSTATIC mixing valves incorporating an entirely new method of temperature control and launched by shower manufacturer Walker Crosweller and Co., of Cheltenham, have been designated the Mira 15 series.

The new valves are superior in that they give faster, more accurate control, over an extremely wide pressure range, ensure maximum user safety and require less maintenance. Furthermore a longer working life is achieved by the intrinsic design and the materials used.

The accuracy and reliability of the new unit makes it ideal for any industrial or chemical process that requires a consistent supply of water at a precise temperature within the 30 deg C to 50 deg C range.

The valve is so accurate that it will allow only a 1 deg C change in the blend temperature even after a change up to 10 deg C in either inlet temperature. Process safety is also guaranteed because of the valve's extremely fast response time. In the event of cold water failure, total shut-off can occur in approximately 1.5 seconds.

Fitting is said to be easier and cheaper because the valve has its own built-in strainers and isolating check valves. Thus when fitting the valve, only two connections are required instead of eight. The inclusion of isolating valves contributes considerably to simple fast maintenance. In the event of the valve requiring servicing, the water supplies are turned off using the isolating valves. The thermostatic unit which is of cartridge design can then be quickly removed for servicing or replacement. However, to make servicing less expensive, individual components are available.

The secret of the advanced performance of the Mira 15, says the company, lies in the "thermoscopic element" controlling the mixing of hot and cold supplies. This consists of surface area, and containing an extremely temperature-sensitive "polyeutectic" compound which expands or contracts according to the mixed water temperature.

This moves a flexible phosphor bronze metal seal on the unit which in turn regulates the hot and cold inlets via a simple proportioning mechanism.

In normal use, the valve is said to go further than any other design in positive accurate control despite gross fluctuations in hot and cold supply pressures. With an unrestricted outlet, even a 50 per cent change from equal in the inlet pressures gives a less than 1 deg C change in blend temperature. Temperature stability is maintained even when the back pressure is as high as 80 per cent of the lower inlet pressure.

Walker Crosweller claims that the low stress design of the thermoscopic element also results in greater reliability and a working life estimated at around 10 years' normal use. With a total operational force of 22 kg, the thermoscopic element develops more than sufficient force to clear build-up of scale on the valve seats. In fact the whole valve has been design to minimise scale deposition thus contributing to long life.

Walker Crosweller and Co., Whaddon Works, Cromwell Road, Cheltenham, Gloucs. 0242 27953.

Imports threaten brassfounders

ONE OF Britain's oldest established industries—the brassfounders—believes that its trading position is being severely eroded by imports, announces the National Brassfoundry Association, 5 Greenfield Crescent, Edgbaston, Birmingham (021 454 2177).

Value of imports in the first three months of this year in kitchen and bathroom taps, mixers and related brassware products (in which the British have been traditionally strong) have shown an exceptional increase of 77 per cent over that of the same period last year.

Members of the Association are now to lobby MPs at a meeting to be held at the House of Commons on June 23 when they will express concern at what is a direct threat to employment in their factories—even, perhaps, plant closures—as a result of the increase in imports, which have developed from a steady flow to a flood.

Principle challenge to the UK product is from Italy. This accounts for half of the new total, with West Germany coming second. While German products are of a type and price competitive to British effort, those from Italy are causing major concern.

Circuits made fast and clear

OFFERING BOTH high photographic speeds and high image resolution is a new negative photoresist for the circuit production industry put on the market by Philip A. Hunt Chemical Corporation, a company in which Turner and Newall of Manchester has a 63.5 per cent interest.

Known as HNR 999, it allows the use of high scan settings on projection mask aligners while reproducing original mask dimensions more closely than is usually possible at these speeds. Depth of focus on projection also becomes less of a problem.

The new photoresist is compatable with existing production equipment and processes and will be supplied as a ready-to-use liquid in one gallon containers.

An interesting indication of the exremely small dimensions now becoming commonplace in modern "chip" production is the fact that manufacturing procedures for the new resist include filtration down to 0.2 of a micron.

Available in the UK from Hunt Chemicals, Torrington Avenue, Coventry, CU4 9TB (0203 467914).

Tiny power controllers

THICK-FILM CIRCUITS using silicon chips for the control of electrical loads up to 3,000 watts have been introduced by United Automation and have dimensions of only 49 x 16 x 6.4 mm.

For connection to 240 volt 50/60 Hz mains, these hybrid units offer a 50:1 size reduction and considerable saving in cost when compared with conventional units for the same purpose assembled from discrete components.

Types are available rated at 10 or 15 amps and both are three-terminal devices able to control up to 3 kW using phase angle methods. When fitted with a potentiometer—large tabs with a suitable hole are provided or the device can be supplied in other forms with the control potentiometer built in—the load power can be smoothly controlled from zero to 99 per cent.

Applications will occur in heater control and in the variation of motor and lighting loads in many parts of industry.

United Automation is at 237a Liverpool Road, Birkdale, Southport, Merseyside PR8 4PF (0704 65713).

● RESEARCH

Finding a better material

U.S. INDUSTRY annually supports $4.3bn in materials research and development, according to a study by Battelle's Columbus Laboratories.

Conducted for the Interagency Federal Comittee on Materials (COMAT), the study showed that 26 per cent of the expenditure was for the chemical industry. Other industries supporting major efforts included fuels and energy materials, 15 per cent of the total; metals, 12 per cent; and plastics and rubber, 10 per cent.

A similar, earlier study conducted by Battelle for COMAT, showed that in fiscal year 1976 the U.S. government funded almost $1bn in this area.

The Battelle study, which is based on 1977 and 1978, found that materials R and D performed in direct support of improved materials use is about 70 per cent of the total directed effort.

Supply-related effort is about 25 per cent of the total, and that related to waste management and post-consumption salvage of materials accounts for about 5 per cent.

The study found industrially-funded materials research and development is heavily weighted toward the national goals of material supply (1.6bn), energy supply ($1.1bn), standards of living ($766m), and maintnance of a business economy ($539m).

Battelle, Columbus Laboratories, 505 King Avenue, Columbus, Ohio, U.S. 43 201.

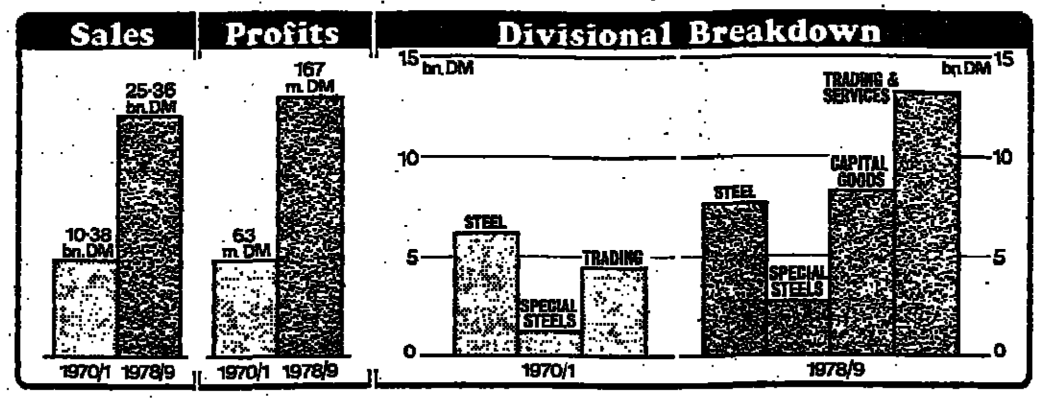
CONTRACTS AND TENDERS

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Casting a solid future—the German way

Continuing our occasional series, Roger Boyes examines the unusual resiliance of Thyssen, Europe's biggest steel producer



DR. DIETER SPETHMANN, the chief executive of West Germany's mammoth Thyssen steel group, is a scholarly, contemplative man who believes in management by persuasion, not diktat. Adapting one of Karl Marx's more memorable slogans, Spethmann believes that forceful persuasion is the mid-wife of change.

It is a philosophy which seems to have worked well, enabling Spethmann to steer Thyssen, Europe's largest steel producer, through the choppy waters of the steel crisis, outperforming all of its German competitors, and most of its other Western ones too.

Over the past decade, starting well before the crisis was all too obvious by its presence, the group has diversified out of crude steel at almost breakneck speed, spreading its wings into special steels, into trading and services and into capital goods. It is now able to offer clients an extremely wide product range, stretching from pig iron to high grade structural steels, from car brakes to locomotives.

Pressure on margins

When Spethmann took over Thyssen in 1973, the group had a sales turnover of about DM 12bn. This has more than doubled to over DM 25bn. Net profits have fluctuated over the past few crisis years but there has never been any question of going into the red. Indeed net profits actually edged up last year to DM 167m from DM 100m in 1977-78. High energy and production costs will put pressure on margins in the years to come, but no-one in the Thyssen management seriously expects profits to drop below the low level of 1971 when net profits were DM 56m.

By contrast, two of Thyssen's major domestic rivals, Hoesch and Kloeckner, have this year been forced to take radical steps to drag themselves out of the red. Kloeckner announced a major capital reorganisation which it hopes will bring it back into profit in 1982 while Hoesch is to receive some DM 240m worth of cheap government loans. Bonn has also announced state subsidies for the Saarland steel industry. Salzgitter, the state-owned steel concern, is expected to fall back into the red this year after just breaking even in 1979.

So why has Thyssen survived so well? Is the answer strategic planning or just good fortune? In an industry where muddled crisis—management is the watchword, Thyssen certainly seems to have more long-term perspectives than most other companies. "The aim," says Spethmann, "is to look beyond the present crisis and evolve a company that will be able to compete effectively in the 1980s, in a world of political and economic uncertainties."

Fine words—but other factors have come into play. Certainly, good fortune is one of them. But more important has been a certain dynastic awareness that has made for close links between the supervisory and the executive boards. This in turn has made takeover moves and the whole "management by persuasion" approach more feasible.

The foundations of Thyssen's strategy were laid by Dr. Hans Guenther Sohl, who pulled together a going concern from the remnants of the pre-war Vereinigte Stahlwerke. As a young lawyer, Spethmann spent a period soon after the war trying to sort out the foreign debts of Vereinigte Stahlwerke and thus came to the notice of Dr. Sohl, who later decided to offer him the job of personal assistant. Three years later, in the mid-1950s, Sohl made Spethmann head of the Thyssen finance department, where he was involved in the takeover of the large Phoenix Rheinrohr Steel tube concern.

By the 1960s it was clear that Spethmann was being groomed for at least a senior board position. In 1964, at the age of 37, was made chairman of Thyssen's principal special steel concern, Deutsche Edelstahlwerke. The company boomed under his tutelage, diversified into new alloys for the aerospace industry and capitalised on the demand for rust free chassis for motor cars.

Spethmann returned to head office three years later and became effective deputy to Sohl. When the latter decided to give up the day-to-day running of the company, Spethmann was the natural successor.

But the key point is that Sohl then became head of the supervisory Board, where he continues in an unusually active role. The close links between Spethmann as chief executive and Sohl in the supervisory board gave the group important room for manoeuvre in decision-making, and ensured that corporate power did not become too diffused.

Defining the limits

To hat extent have the ties between Sohl and Spethmann had an influence on Thyssen's strategy? In an age of steel industry transfer fees it is of course tempting to identify corporate success too closely with the activties/ambitions of the chairman. In Thyssen the situation is a little more complex. Some subsidiaries — Thyssen Handelsunion for example — have relatively greater clout wthn the group and by modifying head office strategy on the ground can influence the direction of the grou pas a whole. The finance director has an important role in strategic planning as well, effectively defining the limits of growth of the main divisions.

But the fact remains that the link between Sohl and Spethmann was an important element in ensuring the continuity of Thyssen policy from pre-crisis to post-crisis times. While other German steel companies initially responded slowly to the crisis and then over-reacted with sharp retrenchment and capacity cuts, Thyssen managed the transition relatively smoothly. Diversification and the integration of new companies into the group structure takes time — sometimes longer than the normal career span of an executive board chairman. By passing on the baton to Spethmann, however, Sohl has ensured that the guiding principles have stayed intact.

The approach inherited from Sohl had three main elements: first, broad diversification beyond crude steel production was clearly on the cards since Thyssen could see a crisis round the corner; second, expansion abroad, both interms of steel-producing concerns and in other fields; and finally rationalisation within West Germany was clearly a priority.

The Sohl-Spethmann axis has been most evident in the diversification programme. One of Sohl's last moves before departing for the supervisory Board was a successful bid for Rheinstasl, a broadly-based crude steel producer in the Ruhr. The merger produced a company with an annual turnover of some DM 16bn (making it at the time in terms of turnover the second largest German group in any industry after Volkswagen), a workforce of more than 150,000 and total crude steel output of 14m tonnes.

Both Thyssen and Rheinstahl were doing badly, partly because of the collapse in steel demand in 1970, partly because of the rocketing cost of domestic and coking coal. But Thyssen bought in at a favourable price and everything hinged on how well Rheinstahl could be integrated into the group.

The move went well, though there are still a few digestion problems? Rheinstahl shed its chief loss maker, Hanomag, to Massey Ferguson, the Canadian manufacturer of farming and construction machinery. Rheinstahl's Emden shipping yard came as an immediate boost to Thyssen's shipbuilding activities, bringing with it a healthy order book including four liquefied natural gas carriers.

Meanwhile, the merger produced considerable economies of scale in iron and steel output and Rheinstahl's foundry capacities proved, initially at least, useful to Thyssen. Some 7,000 workers were transferred from Thyssen to the control of Rheinstahl (subsequently renamed Thyssen Industrie) while 8,500 steel workers left Rheinstahl for Thyssen. Streamlining meant redundancies but these were minimal and the unions lodged few objections—with high cash losses, an awkward management structure and an inadequate technological base, it was apparent that Rheinstahl would not have survived long without Thyssen's assistance.

The successful "cannibalising" of newly acquired concerns has been a hallmark of Thyssen's diversification strategy. It would be wrong to assume, though, that all is well with Thyssen Industrie, the successor to Rheinstahl. Sales dropped last year in its plastics machinery section, while the shipyard of Thyssen Nordseewerke is on short-time working.

These do not appear to be serious structural problems, however, and the weaving-together of three sections — Thyssen Energie, Thyssen Kloene and Thyssen Engineering — has created a useful sub-division for marketing know-how and engineering capacity in the field of plant technology. The beneficial effects of this merger-within-a-merger are expected to spill over to other domestic sections within Thyssen Industrie.

Diversification into capital goods and elsewhere has, however, bred a different and more fundamental species of problem. Board members, or rather ex-Board members, of various Thyssen subsidiaries have recently complained that the group has become rudderless under Spethmann, that the parent company is too steel orientated and insensitive to the special difficulties of, for example, the automobile accessory market (a speciality of the Thyssen Industrie division).

Senior Thyssen executives are sanguine about these criticisms (though they are hurt that they should have found their way into print) and their position is understandable. Some degree of strain is a natural and often necessary element in certain human relationships: field officers resent the general staff. By the same token, subsidiaries (there are over 50 in the Thyssen group) complain about parent company control; it is too over-weaning or too soft, too specifically geared to financial results or too intrusive.

Thyssen claims that it regards this as "creative tension." There is a sense of financial competition between the four main divisions — crude steel, special steels, trading and capital goods — and it is understandable that some divisions will feel that they are being subordinated to other interests.

Yet it is clear that some of the criticism is justified. The second prong of Thyssen's overall strategy—the purchase of overseas production facilities —has been littered with mistakes. In the early 1970s, for instance, Thyssen acquired a 49 per cent holding in a steel plant at Cosigua on the Guanabara coast, south west of Rio de Janeiro. The idea of the joint German-Brazilian project was to produce iron sponge through an oil-based direct reduction process. But technical problems and the sudden rise in the price of oil rapidly made the project something of a white elephant and Thyssen has only just managed to disentangle itself from the venture.

Dr. Dieter Spethmann, Thyssen's chief executive: an advocate of forceful persuasion.

The acquisition of Budd, the US automobile supplier, has also brought its share of difficulties. After profiting from the U.S. motor boom, it is now beginning to suer from its dependence on the American motor market. There has been a drive over the past year to reduce this dependence with a slight shift of focus to rail passenger cars, castings and plastic products.

On the whole though, Thyssen is happy with its investment in Budd, and in the long-term it offers considerable expansion possibilities on the North American continent.

Management by persuasion means more than persuading some dissident senior managers to fall into line. For Spethmann—and for his powerful finance director, Dr. Klaus Kuhn, it means passing on the message to several different audiences at once.

It means convincing the workforce that wage claims have to be kept down below 7 per cent (IG Metall, the metal-workers union was demanding about 10 per cent but this spine settled for 6.8) if investment levels are to remain high. It means that shareholders have to be persuaded that the company cannot raise its modest 8 per cent dividend, despite higher profits and the revival in steel demand. And it means talking customers into accepting yet higher price rises for crude and speciality steels partly because of hefty energy and labour costs.

Relations with the workforce have played an important part in Thyssen's thinking over the past five years, during which time capacity has been concentrated and streamlined. Production of crude steel has fallen from 13.8bn tonnes in 1973-73 to 11.58bn in 1977-78, perking up slightly last year to 11.9bn tonnes. Rolled steel production fell from 11.8bn tonnes in 1972-1973 to 10bn tonnes last year, though this was partly influenced by the 1978-79 winter strike.

The drop in steel output then has not been a dramatic development—capacity is being only gradually adjusted to lower production and always with the negotiated approval of the workforce. Workers have been transferred without great upheaval from the steels division to special steel and natural wastage is often a favoured option. In the post-war years Thyssen inherited a fairly old workforce which made early retirement more feasible in the late 1960s and aerly 1970s. Meanwhile apprentices are playing an increasing role in the company, accounting for nearly 5.5 per cent of the total workforce against 4.5 per cent in the mid-1970s. Ultimately though, the total domestic workforce has grown throughout the current steel crisis from 92,000 in 1972-73 to 129,000 last year.

Regular consultation between management and unions has been a key component of the Thyssen approach throughout the crisis years, as it has in other German steel companies. Workers' representatives have an important say in the company supervisory board and, on the executive board, the personnel director co-ordinates closely with the unions.

When worker representatives were first admitted to Thyssen's supervisory board there was an initial fear that wage claims would become tougher and that the company would be pushed below the profit line. This, as Thyssen managers now readily admit, has not been the case. The worker-directors accept that the supervisory board is not the forum for wage discussion.

The Government-sponsored Biedenkopf Commission into co-determination admitted that workers often pick up financial information from supervisory boards that prompts higher wage demands in good times and lower demands in bad. But Thyssen does not view this as a threat.

The clear message seems to be that productivity has increased at Thyssen because and not in spite of the unions. Thyssen managers say that productivity in the crude steel division has now reached 1.9 tonnes of steel per man per shift, compared with one tonne 20 years ago. In special steels, in terms of turnover per man, productivity has trebled over the past 15 years.

The three pillars erected by Sohl remain — diversification, overseas expansion and rationalisation of steel capacity —but there are a number of largely uncontrollable factors that could affect the relative balance of these fundamentals. International crises and even national upheavals—such as the coup in Liberia—have all taken their toll on Thyssen and other German companies.

Subsidised competition

Protectionist trends in some industrialised countries, the U.S. Steel anti-dumping suit against European producers, the increasing importance of new steel producing countries, the subsidised competition from overseas (and increasingly from within Germany)—these are all important factors which will bite into steel margins and push Thyssen towards a heavier dependence on its trading subsidiary.

Meanwhile although wage increases have been kept within reasonable limits, production costs are soaring. To this end, Thyssen is trying to reduce its high energy consumption. The company has the advantage of being able to meet most of its electric power requirements from its own power plants which use coking and blast furnace gas, and steam generated in the steel production process. The use of continuous casting and energy recycling techniques have helped to keep energy consumption per tonne of crude steel over 10 per cent below the amount used at the beginning of the 1960s.

In short, Thyssen is reasonably equipped for the post-crisis years and its management appears to have the flexibility of approach needed to maintain its competitive edge in Germany and Europe. Thyssen, one Ruhr Steel analyst claimed recently, "does not repress or chew on problems—it tries to solve them. Sometimes it makes mistakes but somehow they are always less costly, less dramatic than imilar blunders made by other companies."

BUSINESS PROBLEMS — BY OUR LEGAL STAFF

Restraint of trade

I have received my contract of employment letter from the agency by which I am employed. One clause stipulates that in the event of my wishing to leave my present employer, I may not work for a competitor in the same line of business, nor set up my own, within 50 miles of the present location. I hesitate to signify my acceptance of their letter and wonder, in any case, if this clause is enforceable. What, please, is your view?

We think that the restriction in question is probably too wide and hence void as being a covenant in restraint of trade and contrary to public policy. If you sign the letter of contract that will not preclude you from subsequently claiming that the restraint, or barring-out, clause is void.

Sole trader and VAT

I am fully occupied as an export shipping clerk and as I enjoy my work I propose operating in my spare time an export enterprise on a sole trader basis. Do I need to be registered as a trader and do I have a liability to account for VAT? Are there other steps you think I should take?

You will find general guidance in three free booklets, which should be obtainable from your local Customs and Excise VAT office, your local DHSS office (or post office, possibly) and your tax inspector's office, respectively: C & E Notice 700 — VAT General Guide; NI41—National insurance guidance for the self-employed; IR28—Starting in business.

If the figures are likely to be significant, you may well find it worthwhile to consult an accountant, at least for an outline of the commencement rules of schedule D as they affect your expected profits.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

LOMBARD

A time to talk to the TUC

BY SAMUEL BRITTAN

IT IS characteristic of the media and opinion-formers to get worked up about yesterday's issues and fail to see those of tomorrow, which are staring them in the face. For all the headlines about the 22 per cent rise in the Retail Price Index over a year ago, inflation has nearly passed its peak.

It will of course be a long time before the inflation rate is remotely satisfactory: but at least it is more likely to get better than worse. On the other hand, unemployment is an indicator which will be deteriorating.

Begging

Some rise in unemployment is an inevitable accompaniment of policies to reduce inflation. But neither the size of this increase nor the level at which unemployment will eventually settle after the transition is over is fixed in heaven. Both are aggravated enormously by the lack of a common language to discuss economic policy between different sections of society, between different members of the same party and even between different members of the so-called economic profession.

Maybe in an ideal world the TUC would not exist or be a very different sort of animal. But it is madness not to talk with a major interest group, which has brought down three previous British Governments and which is now in a position of perhaps temporary weakness. So much so that, as much as its pride will allow, it is begging to be consulted; and dreams of laying down conditions are very much in abeyance.

The urgent agenda item is what can be done to prevent millions of workers from being priced out of jobs not in 1990 or 1985, but this year and next.

But having made the suggestion for talks, one immediately has reservations about how such talks are likely to be conducted. The only half-true official brief about pricing ourselves out of world markets which has turned up for the past 35 years is worse than useless. Many official advisers, however hard they try, would only think in terms of a pay norm, and of disguising from the Prime Minister that this is what they are advocating.

In major European countries such as Germany and France, where Governments adopt a largely monetarist approach to inflation, senior ministers do talk to union leaders. But they are careful not to hint at a cash figure for wages. The dialogue is in terms of, "We cannot afford to let wages rise any further than prices in the year ahead;" to which is added, "and we can't offset that part of the price increase due to oil or energy rises."

In the British case, the question would have to be posed starkly in terms of whether we need a zero increase or actual fall in real, not money, wages to safeguard employment.

It is not obvious either who should conduct the discussions. The stilted Neddy-type dialogue from prepared briefs makes little contribution. Moreover, present senior economic ministers do not revel in the dialectical to-and-fro required. The TUC is entitled to hear exactly what is wrong with its objections to monetarism, or its alternative strategy, and not merely be told that the Government approach is "common sense" or that there is "no alternative."

Argument

One possibility would be to let the CBI and TUC have it out between them. The trouble here is the effective absence of the public sector or a representative of the wider public. A second possibility would be to let some of the second or third XI ministers, who do not mind argument, into the fray. A third would be to put Professor Terry Burns, who is quick on his feet, really understands Government strategy and has similar personal roots to TUC leaders into a more front-line position.

Fourthly, Mrs. Thatcher could conduct the discussions—in which case some doctrinal purity would be sacrificed for political impetus. These suggestions are not mutually exclusive.

Coming back after any absence abroad, the British political and economic scene resembles more and more animals glaring at each other uncomprehendingly out of hostile cages. It ought to be possible to do better than that, without going back to incomes policy, "demand management" or government by TUC licence.

The case for specially-qualified juries

THE WEEK IN THE COURTS

BY JUSTINIAN

THE TIME taken in trying criminal cases, complicated fraud cases in particular, not to say the cost to the public purse, is a constant theme of speeches made by those responsible for the administration of criminal justice. Last week the Attorney-General indicated some positive ways in which the business of the criminal courts could be speeded up.

His main pleas were directed at leading prosecuting counsel at the Central Criminal Court, to restrict the number of people they put in the dock; it is a waste of time and money to put the lesser participants to crime on trial, because the effect is usually to produce acquittals and, even if there are convictions, to inflict only monetary penalties. Only the principal offenders should be subjected to the criminal process.

There is also the problem that is produced from indictments framed in such a way that the ambit of the court's inquiry is enlarged beyond what is strictly necessary for the purpose of reflecting the criminal responsibility of the defendants. Rather than range over the whole period of criminal activity, prosecutors could usefully confine the Crown's case to the time when the criminal activity has been most prominent.

These procedural changes for restricting the scope of fraud trials could help reduce the time taken in trials, but their impact would not be sufficient to eradicate the inordinate delays in bringing cases to trial because the cases in front cannot be disposed of within a reasonable time.

Sir Michael Havers went further, in his speech last week, in directing some well-merited criticism at the judges. He noted that many summings-up to juries were far too long and hence unhelpful to jurors seeking to unravel the essentials from the inessentials. And there was a mild rebuke at some judges that they tended not to sit in court for a full working day.

Complex

But appropriate remedies for these shortcomings would be mere palliatives to deeper and more intransigent problems. Fraud cases today are more complex than ever before, reflecting the complexities of modern taxation and commercial activity. Modern instances of company accounts often involve a network of inter-related companies of great intricacy. High taxation rates and substantial governmental involvement by way of subsidies and the like add to the attractiveness of creating elaborate schemes for dishonest ends.

Where criminal proceedings are taken against the perpetrators of complex fraudulent schemes there is bound to be lengthy expert evidence from accountants and businessmen, to say nothing about the sheer weight of documentation given such increase because of the photocopying-machine.

Something more drastic is called for. The pointer seems to be in the direction of the jury. The fact that recently two or three trials became abortive after many weeks of trial, because one or more jurors had been approached with a view to giving a verdict in favour of the defence, prompts a query whether trial by some other method would be acceptable. At least there might be some choice for the defendant whether he might not accept trial before a tribunal that would take less time and cost considerably less.

Some three years ago two stockbrokers were charged with conspiracy to contravene Exchange Control laws; they had engaged on behalf of clients to operate a revolving fund fraud that netted the operators millions of pounds by way of the dollar premium on investment funds. By election of the prosecutor and the two defendants, the case was tried before three magistrates in the City of London; they were a lawyer, a retired bank official who had worked in Exchange Control, and a property-dealer who was familiar with the workings of the Stock Exchange.

Reasoned

They sat for 30 days trying a complicated case. If the case had been committed to the Old Bailey for trial by jury, the common view was that it would have taken about nine months to try. The justices convicted the two accused (one of them only of technical Exchange Control offences and not of fraud) and gave a reasoned judgment for their decision. There were not appeals against the verdicts.

Instinctively there would be opposition to trial by a single judge, as takes place in comparable cases conducted in the civil courts. But there would be much less objection if the court was composed of a judge and two assessors appointed from among a panel of persons with expertise in matters of commerce and finance. The alternative is to revive the old system of special juries.

Before 1949 there were two classes of trial jury: common and special. Special juries in the past had fulfilled two different functions, one as informed judges of facts requiring knowledge of some special non-legal field, and second as jurors of higher social status than normal.

A revival of the specially-qualified juries, not in the spirit that was behind the provision of jurors of higher social status but on the model of the commercial jury which had sufficient specialist knowledges to understand and make an informed judgment of the issues in question, would be feasible.

Some years ago a Government committee rejected the idea, because it discerned that the majority of those giving evidence to the committee were against it: "Witnesses who have been able to speak with experience have expressed the view that the avegae jury today is able to cope even with long and difficult cases." Even if that be true, a special jury would be able to grasp the intricacies of a case much faster than an inexpert jury. And the fact that the special jurors would be drawn mainly from professional people would probably mean that they were less susceptible to improper approaches from the accused.

A hundred years ago English judge Sir James Fitzjames Stephen wrote glowingly of the virtues of the Special jury in his History of the Criminal Law:

Competent

"A really good special jury will usually consist of, or as a rule contain, men in every respect as competent to judge of the effect of evidence as any judge and the probability that they, or some of them, will possess experience bearing on the case which has not come the judge's way is considerable. I think that so far as skill and intelligence go it would be impossible to have a stronger tribunal than a jury of educated gentlemen presided over by a competent judge."

He concluded:

"I think that in all criminal cases of any considerable difficulty or importance there ought to be at least a power to summon special juries. In short, I think a good judge and a good special jury form as strong a tribunal as can be had, but I think a judge without a jury would be a stronger tribunal than a judge and an average common jury."

Derby picture is confused

RACING

BY DOMINIC WIGAN

IN CONTRAST to many people's hopes, the outcome of Ireland's Airlie Coolmore 2,000 Guineas at the Curragh confused rather than clarified the Derby picture, and for the second time in 48 hours book makers suspended betting on the Epsom race.

The winner, Nikoli, a big heavy topped colt thought unlikely to run well on the Curragh's concrete-like underfoot conditions — officially described as good to firm after being soaked with a million gallons of water—will not run in the Derby.

And both the second and third-placed, Last Fandango and Final Straw, will not stay the 1½-mile course.

Fourth placed Posses, whose owner R. Ogden Mills Phipps, was thought before Saturday's race to be in favour of Epsom, in spite of advice to the contrary by Dunlop, will also not stay the 1½ miles.

Monteverdi—blinkered for the first time on Saturday—does not have a chance. He showed a woeful lack of pace in the closing stages and he also failed to steer a straight course, wandering badly towards the stand side when put under pressure a quarter of a mile from home.

Lester Piggott, who scrutinised intently the replay in the stewards' room after the race, summed up Monteverdi's display as "useless."

All in all, it is hardly surprising to find Ginistrelli now heading the Derby market despite a far from emphatic victory at Lingfield last time out.

However, should Hern decide to let Henbit run in the Derby, we will have a worthy favourite. There is little doubt that in achieving a record breaking victory in the Chester Vase, Henbit put up the best performance seen by a potential Derby runner.

Returning to Saturday's classic, it is interesting to what a triumph the outcome was for that remarkable stallion, Forlie, sire of Posse. little satisfaction from the outcome.

Vincent O'Brien, who gained come of the race, did sound a note of optimism after viewing Kris's performance in the Tote Lockinge. His comment: "That colt can be beaten this summer."

WOLVERHAMPTON

3.00—Leiko

3.30—Tamarin Falls

WINDSOR

6.25—Disturbed Dollar*

7.15—Vaguely Tender***

8.15—Shelford Lad**

TV/Radio

BBC 1

†Indicates programme in black and white

6.40-7.55 am Open University (Ultra high frequency only). 9.52 For Schools, Colleges. 11.25 You and Me. 11.40 For Schools, Colleges. 12.45 pm News. 1.00 Pebble Mill At One. 1.45 Over the Moon. 2.01 For Schools, Colleges. 3.13 Songs of Praise. 3.53 Regional News for England (except London). 3.55 Play School (as BBC 2 11.00 am). 4.20 Cheggers Plays Pop. 4.40 Godzilla. 5.00 John Craven's Newsround. 5.05 Blue Peter. 5.35 The Wombles.

5.40 News.

5.55 Nationwide (London and South East only).

6.20 Nationwide.

6.55 Ask The Family.

7.20 The Dukes of Hazzard.

8.10 Panorama — The Real Unemployed: who are they?

9.00 News.

9.25 The Monday Film: "The Unforgiven," starring Burt Lancaster.

11.25 Bellamy's Europe.

11.55 Weather/Regional News.

All Regions as BBC 1 except as follows:

Cymru/Wales — 1.45-2.00 pm Pili Pala. 2.18-2.38 For Schools. 5.55-6.20 Wales Today. 6.55-7.20 Heddiw. 11.55 News and Weather for Wales.

Scotland—12.40-12.45 pm The Scottish News. 5.55 Reporting Scotland. 6.20-6.30 General Assembly of the Church of Scotland. 6.30 Join BBC 1 (Nationwide). 11.55 News and Weather for Scotland.

Northern Ireland—3.53-3.55 pm Northern Ireland News. 5.55-6.20 Scene Around Six. 11.55 News and Weather for Northern Ireland.

England—5.55-6.20 pm Look East (Norwich); Look North (Leeds, Newcastle); Look North-west (Manchester); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton); Spotlight South West (Plymouth).

BBC 2

6.40-7.55 am Open University.

11.00 Play School.

4.50 pm Open University.

6.55 Six English Towns.

7.25 Mid-Evening News including sub-titles.

7.35 Around with Alliss.

8.05 Bird Spot.

8.15 The Waltons.

9.00 Barbara Dickson and her Band play Rhythm on 2.

9.20 Brass Tacks.

10.15 Rock Athlete.

10.45 Newsnight.

11.30 Russian—Language and People.

LONDON

9.30 am Schools Programmes. 10.20 Untamed Frontier. 10.43 Schools (continued). 12.00 Chorlton and The Wheelies. 12.10 pm Rainbow. 12.30 One Step Ahead. 1.00 News plus FT Index. 1.20 Thames News. 1.30 About Britain. 2.00 Against the Wind. †2.30 Monday Matinee: "The Colditz Story," starring John Mills and Eric Portman. 4.15 Clapperboard. 4.45 Enid Blyton's Famous Five. 5.15 Money-Go-Round.

5.45 News.

6.00 Thames News.

6.35 Crossroads.

7.00 Lingalongamax.

7.30 Coronation Street.

8.00 Young at Heart.

8.30 World in Action.

9.00 Fox.

10.00 News.

10.30 The Pye Colour Television Awards.

11.45 Monday Film: "The Norliss Tapes."

12.30 am Close: Personal choice with Isabel Dean.

All IBA Regions as London except at the following times:

ANGLIA

1.25 pm Anglia News. 2.00 Money-go-Round. 2.30 Monday Film Matinee: "Collision Course." 5.15 University Challenge. 6.00 About Anglia. 6.30 Survival. 11.15 Monday Late Film: "The Innocents," starring Deborah Kerr and Michael Redgrave. 1.00 am Reflection.

ATV

1.20 pm ATV Newsdesk. 2.00 Money-go-Round. 2.30 Monday Matinee: "The Catcher," starring Michael Witney. 5.15 Leave it to Charlie. 6.00 ATV Today. 10.30 Left, Right and Centre. 11.00 Pye Colour Television Awards. 11.45 ATV Newsdesk. 11.50 Something Different.

BORDER

1.20 pm Border News. 2.00 Money-go-Round. 2.30 Monday Matinee. 5.15 University Challenge. 6.00 Lookaround Monday. 6.15 About The Garden. 6.30 Out of Town. 11.15 Vegas. 12.15 am Border News Summary.

CHANNEL

1.20 pm Channel Lunchtime News, What's On Where and Weather. 2.00 Money-go-Round. 2.30 The Monday Matinee: "Something For a Lonely Man." 5.15 University Challenge. 6.10 Animated Classic. 10.28 Channel Late News. 10.32 The Television Programme. 11.00 The Pye Colour Television Awards. 11.45 Luke's Kingdom. 12.40 am News and Weather in French.

GRAMPIAN

9.25 am First Thing. 1.20 pm North News. 2.00 Money-go-Round. †2.30 Monday Matinee: "Seven Thunders," starring Stephen Boyd and James Robertson Justice. 5.15 University Challenge. 6.00 North Tonight and Area Weather Forecast. 6.35 Out of Town. 11.15 Reflections. 11.20 The New Avengers. 12.15 am North Headlines.

GRANADA

1.20 pm Granada Reports. 2.00 Money-go-Round. 2.30 Monday Matinee: Rex Harrison in "The Constant Husband. 5.15 Granada Reports. 6.00 Granada Reports. 6.30 This Is Your Right. 10.30 Mossley Goes to Wembley. 11.00 The Pye Colour Television Awards. 11.45 Twist in the Tale.

HTV

1.20 pm Report West Headlines. 2.00 Here Today. 2.30 The Monday Matinee: "Trian Run." 5.15 Sam. 6.00 Report West. 10.30 Soap. 11.00 The Pye Colour Television Awards. 11.45 Twist in the Tale.

HTV CYMRU/WALES—As HTV West/HTV General Service except:—10.05-10.20 am ABC. 12.00-12.10 pm Trelwtws. 1.20 Penawdau Newyddion y Dydd. 1.25-1.30 Report Wales Headlines. 2.00-2.30 Hamdden. 4.45-5.15 Ser. 6.00 Y Dydd. 6.25-7.00 Report Wales. 8.30-9.00 Yr Wythnos.

SCOTTISH

1.20 pm News and Road and Weather. 2.00 Money-go-Round. 2.30 Monday Matinee: "Some Girls Do," starring Richard Johnson. 5.15 Little Vic. 6.00 Scotland Today. 6.45 Crimedesk. 10.30 The Pye Colour Television Awards. 11.45 Late Call. 11.50 George Hamilton IV.

SOUTHERN

1.20 pm Southern News. 2.00 Money-go-Round. 2.30 "The Healers," starring John Forsythe. 5.15 Take My Wife. 6.00 Day by Day including Southsport. 10.30 Southern Report. 11.00 Pye Colour Television Awards. 11.45 George Hamilton IV.

TYNE TEES

9.20 am The Good Word followed by North East News. 1.20 pm North East News and Lookaround. 2.00 Money-go-Round. 2.30 Monday Matinee: "Top Secret," starring George Cole. 5.15 Mork and Mindy. 6.00 North East News. 6.02 Play It Again. 6.25 Northern Life. 10.30 North East News. 10.32 Northern Report. 11.00 The Pye Television Awards. 11.50 S.W.A.T. 12.45 am Epilogue.

ULSTER

1.20 pm Lunchtime. 2.30 Monday Matinee: "The Constant Husband," starring Rex Harrison, Margaret Leighton and Kay Kendall. 4.13 Ulster News Headlines. 6.00 Good Evening Ulster. 10.29 Ulster Weather. 11.15 The Odd Couple. 11.45 Gardening Today. 12.15 am Bedtime.

WESTWARD

1.20 pm Westward News Headlines. 2.00 Money-go-Round. 2.30 The Monday Matinee: "Something For A Lonely Man." 4.12 Gus Honeybun's Birthdays. 5.15 University Challenge. 6.00 Westward Diary. 10.28 Westward Late News. 10.32 The Television Programme. 11.00 The Pye Colour Television Awards. 11.45 Luke's Kingdom. 12.40 am Faith for Life. 12.45 West Country Weather, Shipping Forecast.

YORKSHIRE

1.20 pm Calendar News. 2.00 Money-go-Round. 2.30 Monday Matinee: "The Blue Lagoon," starring Jean Simmons and Donald Houston. 5.15 University Challenge. 6.00 Calendar (Emley Moor and Belmont editions). 6.35 Chips. 10.30 Calender Carousel. 11.00 The Pye Television Awards. 11.45 Kate Loves a Mystery.

Radio Wavelengths

1 1053kHz/285m 1089kHz/275m	3 1215kHz/247m & 90-92.5vhf stereo	BBC Radio London: 1458kHz, 206m & 94.9vhf
2 693kHz/433m 909kHz/330m & 88-91vhf stereo	4 200kHz/1500m & 92-95vhf	Capital Radio: 1548kHz 194m & 95.8vhf
		London Broadcasting: 1151kHz, 261m & 97.3vhf

RADIO 1

5.00 am As Radio 2. 7.00 Dave Lee Travis. 9.00 Simon Bates. 11.31 Paul Burnett. 2.00 pm Andy Peebles. 4.31 Kid Jensen. 7.00 Stayin' Alive. 8.00 Mike Read. 9.50 Newsbeat. 10.00 John Peel (s). 12.00-5.00 am As Radio 2.

RADIO 2

5.00 am News Summary. 5.03 Ray Moore (s). 7.32 Terry Wogan (s). 10.03 Jimmy Young (s). 12.03 pm David Hamilton (s). 2.03 Ed Stewart's Request Show (s). 4.03 Much More Music (s). 5.05 Waggoners' Walk. 5.20 Much More Music (s). 6.03 John Dunn (s). 8.00 Folk on 2 (s). 9.02 Humphrey Lyttelton with the Best of Jazz on records (s). 9.55 Sports Desk. 10.2 Pop Score. 10.30 Star Sound. 11.02 Brian Matthew with Round Midnight, including 12.00 News. 2.02-5.00 am You and the Night and the Music (s).

RADIO 3

†6.55 am Weather. 7.00 News. 7.05 Overture (s). 8.00 News. 8.05 Morning Concert (s). 9.00 News. 9.05 This Week's Composer: Tomkins (s). 9.35 Bach (s) chamber music concert, including 10.20-10.30 Interval Reading. 11.10 Bournemouth Symphony Orchestra concert, part 1 (s). 12.20 pm Interval Reading. 12.25 Concert, part 2. 1.00 News. 1.05 BBC Lunchtime Concert (s). 2.00 Matinee Musicale (s). 3.00 Byrd: Cantiones Sacrae of 1589 (s). 3.30 New Records (s). 4.55 News. 5.00 Mainly for Pleasure (s) († and mono only from 6.20). 7.00 City of Birmingham Symphony Orchestra concert, part 1 (s). 7.50 A Peculiar Institution (talk by Dipak Nandy). 8.15 Concert part 2 (s). 9.10 Man Before Models, discussion, with Professor Herbert Simon, Mary Goldring. 10.00 Piano Recital (s). 10.30 Jazz in Britain: Mike Osborne Quartet (s). 11.00 News. 11.05-11.15 Close-down: Harpsichord music by Balbastre (s).

RADIO 4

6.00 am News Briefing. 6.10 Farming Week. 6.25 Shipping forecast. 6.30 Today, including 6.45 Prayer for the Day. 7.00, 8.00 Today's News. 7.30, 8.30 Today's News. 7.45 Thought for the Day. 8.35 The Week on 4. 8.45 Miles Kington with the BBC Sound Archives. 9.00 News. 9.05 Start the Week with Richard Baker. 10.00 News. 10.02 Money Box. 10.30 Daily Service. 10.45 Story Time. 11.00 News. 11.05 The Angel of the Prisons: an account of Elizabeth Fry. 11.50 Poetry Please. 12.00 News. 12.02 pm You and Yours. 12.27 Brain of Britain 1980 (s). 12.55 Weather; programme news. 1.00 The World at One. 1.40 The Archers. 1.55 Shipping forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Listen with Mother. 3.15 Afternoon Theatre (s). 4.45 Short Story. 5.00 PM News magazine. 5.50 Shipping forecast. 5.55 Weather; programme news. 6.00 News. 6.30 The 27-year Itch (s). 7.00 News. 7.05 The Archers. 7.20 Science Now. 7.45 The Monday Play (s). 9.15 Is There Life After 50? 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 Conversation Piece. 11.00 A Book at Bedtime. 11.15 The Financial World Tonight. 11.30 Today in Parliament. 12.00 News.

BBC Radio London

5.00 am As Radio 2. 6.30 Rush Hour. 10.03 The Robbie Vincent Telephone Programme. 1.03 pm London Live. 4.30 London News Desk. 5.35 Look, Stop, Listen. 7.03 Black Londoners. 8.00 Question Time from the House of Commons. 9.00-5.00 am Join Radio 2.

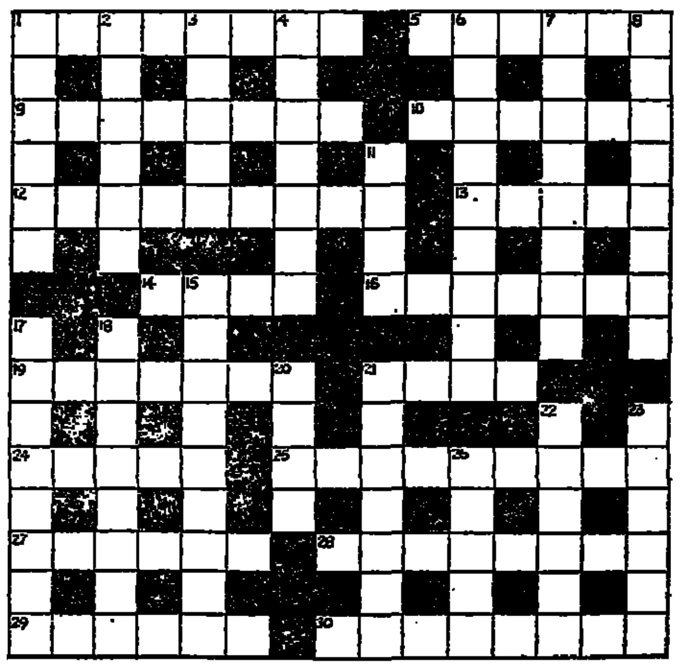
London Broadcasting

5.00 am AM with Bob Holness and Des Fahy. 10.00 Brian Hayes. 12.00 LBC Reports. 8.00 pm with After Eight Special Douglas Moffitt. 9.00 Nightline. 12.00 LBC Reports Midnight. 1.00 am Night Extra. 5.00 Morning Music.

Capital Radio

6.00 am Graham Dene's Breakfast Show (s). 9.00 Michael Aspel (s). 12.00 Dave Cash (s). 1.00 pm London Today First Report (s). 1.10 Dave Cash (continued). 3.00 Roger Scott (s). 7.00 London Today (s). 7.30 Adrian Love's Open Line (s). 9.00 Alan "Fluff" Freeman (s). 11.00 Tony Myatt's Late Show (s). 2.00 am Peter Young's Night Flight (s).

F.T. CROSSWORD PUZZLE No. 4,275



ACROSS

1 Colleague reveals snobbery to boot (8)
5 Attendant who led a stable existence (6)
9 Left to welcome Pole with the German perfume (8)
10 Abandon northern transforming influence (6)
12 Realise fault in circuit could disparage (4, 5)
13 Drink always taken neat (5)
14 Issue putting clock back (4)
16 Port in which fashion is in good order (7)
19 Creature going to work with very large amount (7)
20 No good pudding (4)
24 Either headless alternative might belong to them (5)
25 Dress put on toff retains youthful looks (5, 4)
27 Dye (during archaeological work) love letter (6)
28 This way in to National Trust comes natural (8)
29 Desert after some hesitation and a lot of mistakes (6)
30 Miss not having been to a match (8)

DOWN

1 Spend a lot of money diluting whisky (6)
2 Daughter wrongs junior counsel (6)
3 Henry James' college (5)
4 Revolutionary basis of cigar (7)
6 Twisted southern gardens with another cigar (4-5)
7 Old priest goes over gallery float on air (8)
8 Letting record split with repeated turning over (4, 4)
11 Way sailor receives wound (4)
15 Fall just the girl to marry (4, 5)
17 Sorry study gets overworked (8)
18 Bullish operator to study alternative (8)
20 Cut as many have to admit (4)
21 Stopped being drafted (5, 2)
22 This is about well-bred chap becoming sovereign substitute (6)
23 Severe critic of alternative to Thatcher (6)
26 Point to bird at the back (5)

Solution to 4,269 will be published later.

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

مكرامن الأصل

Warehouse

Pericles

by MICHAEL COVENEY

When invited to review a play in the provinces, James Agate tartly informed his editor that he was not the critic for Asia Minor. Times change, and most of us set sail as often as the unlucky Pericles in the pursuit of duty, but only when confronted with this play can we truly be said to be critics of Asia Minor. The action moves from Pentapolis (somewhere in Greece) to Tyre, Ephesus, Tharsus and Mytilene.

Directors usually excuse this bitty travelogue with shows of Graeco-Byzantine excess or else with some florid presentational idea such as placing the entire action in the brothel at Mytilene where Pericles's daughter, Marina, refuses to join the oldest profession before being reunited with her tempest-tossed father. This latter ruse was employed by the Prospect Theatre Company in 1973. Ron Daniels, directing for the RSC, goes for narrative simplicity and comes up trumps by allowing the poet Gower to manipulate our imaginations, and the story, within a charmed circle traced on a bare stage.

The result is, in many ways, an ideal studio production, patient with the tedious plotting of the early acts and inventive along pretty familiar minimalist lines. Griffith Jones's wise and authoritative poet is directly implicated towards the end by giving him the lines of Pericles's stalwart friends from Tyre. And the opening tale of incest in Antioch — where Pericles is deprived of a wife by deciphering the riddle that reveals the girl to have slept with King Antiochus—finds a reverberative parallel at the end. Here, Peter McEnery tops a marvellous performance by painfully yielding the beautiful Marina (Julie Peasgood) to the suit of Lysimachus. You feel that it is only because Marina's mother, Thaisa (Emma Williams), has been returned to him, that he lets her go. It is an inspirational gloss on the text and the best example of how Messrs Daniels and McEnery bind the piece together.

Thaisa has been despatched for dead—"scarcely coffined in the ooze"—on one of the many hair-raising voyages our hero has to endure. Although a storm at sea is done by hanging a turbulent washing line across the stage, Mr. Daniels is not so minimalist as to eschew sound effects or trick lighting. Similarly, the very boring scene where Pericles wins Thaisa in competition with six other Greek knights is transformed by cunning choreography and an ingenious little dance of the seven males waving their head-scarves.

In Tharsus, the picture of a deprived and hungry community comes dangerously close to a parody of Peter Brook's *Les Iks*, an RSC poverty tableau with peasants moaning and writhing before rejuvenated with indecent haste at the sight of a bowl of corn.

In the brothel there is an expansive comedy contribution by Heather Canning, and the major scene where Marina repels the Governor's advances is effectively handled (if that's the right word), on a white mattress. I feel that Thaisa should be brought to life more magically than by having her feet tickled, but even that scene is done with the sort of serene dignity typical of the whole.

Festival Hall

Sea and Sky

by DOMINIC GILL

Michael Finnissy's *Sea and Sky*, commissioned by the London Philharmonic Orchestra and first performed by them under Elgar Howarth on Friday, was a remnant from what might have been—if the Arts Council had not withdrawn its support—the second of William Glock's 20th-century orchestral music series on the South Bank.

Like Finnissy's recent London Sinfonietta commission, *alongside*, his new orchestral essay, 18 minutes long, was an interesting, ambitious and uncomfortable work. The scoring is for full symphony orchestra with celestas, harps and five percussionists—these last a group who play an important, omnipresent and sometimes overwhelming role. It is not clear to which of the "two large and generalised areas of Reality"—as Finnissy characterises the two nouns of his title—the percussionists belong: perhaps to both. But they dominate the action, and often obscure it: massive roulades of drum-beat, gong-beat, hammer-beat do not so much accompany or punctuate the texture as sustain and define it. *Sticks and Drums* could be another title, just as apt.

Between times, when the drums are silent, the instrumental writing is busy—and curiously bland. Much of the score is hugely overwritten: in the sense that not one half of the notes that Finnissy crowds into his densest pages could ever be heard in any kind of performance; but more important, that the actual effect of the blending of so many layers and rhythms was texturally banal—ineffectual complication rather than inspired complexity. Even the odd ingratiating moments one suspected could have been as much the result of chance as purpose; a graphically notated score would have been easier to play, and no less to the point. The final impression was of a struggle between theory and practice, mind and heart, sea and sky, unsuccessfully resolved: a decent, but unarresting piece of sound-colour composition by a composer who would passionately like to find, but who has not yet found, his own way to use the symphony orchestra as an instrument.

Berit Lindholm and Jon Vickers

Covent Garden

Tristan und Isolde

by MAX LOPPERT

For its latest revival the Royal Opera has engaged a most distinguished cast. It is not far off, indeed, from the best currently available; and it has been tactfully fitted into what some of us still think of (even though his name has long been absent from the bills) as the Peter Hall production. Now supervised by Elijah Moshinsky, with passages of real insight to make amends for the forgiveable loss of original coherence (and with one of the original *bêtises*—neither musical nor dramatic sense is improved by showing Brangäne to the audience during her warning from the tower), the staging presents each player to some individual advantage.

The Royal Opera has also engaged Zubin Mehta to conduct his first Wagner opera in London. There, some might say, is the rub; a performance inhibited from the greatness which should lie within its grasp by the inchoate Wagnerian conception of its musical director. This is too sternly put; one would not wish to discount the many great beauties emergent in Friday's performance. Some *Tristan* conductors (though not Reginald Goodall) force an audience to sacrifice the sheer poetry of the score in their search for the "long view." The strongest feature of Mehta's conducting was its immediate, instinctive response to the fantastic picturesque copiousness of the Wagnerian orchestra. That moment at the start of Act 2 when the offstage horns cease their cry and the clarinets begin their low fountain burble—a moment when the heart of every *Tristan* addict turns over—was realised with wonderful vividness; in the very attack of bows on strings there was in the third-act prelude a foretaste of desolating sun-wracked calm. Generally, the playing was of very high quality; how remarkably good (and also bad) the Covent Garden orchestra can be!

If orchestral sound, and the gift of igniting each passing dramatic incident, were all that the opera predicated, this would be a red-letter *Tristan*. As it is, the failure to scale the acts according to a structural comprehension and coagmentation of each long paragraph leads increasingly to the sensation that while the surface of the score has ben excited, the core remains undisturbed. Unable to lead patiently and firmly to the inevitable climax, Mehta must create climaxes of his own. The first-act prelude contained the first but not the last example of a sudden injudicious acceleration: to the business of push and rush Brangäne's glowing phrases o fcomfort in Act 1 ("Hör' mich! Komme! Setz dich her!") were a particular casualty; in Marke's monologue what we ntoed was not the shape and direction of the music but the mournful colour of two splendid basses — Gwynne Howell and the clarinet—in conjunction. The rewards of this performance are many, but not deep.

Jon Vickers and Berit Lindholm, returning to the title roles at Covent Garden, are partnered here for the first time. While looks must not be counted the most important feature of their success joint and individual, it would be foolish not remark on the handsome images they imprint on the memory: a melancholy knightly intelligence incised on every crack and cranny of the Vcikers mien; she a Burne-Jones princess tall and lissome, with an imperious yet vulnerable manner, and quick, searching eyes. The tenor does not merely relax the classical rules of Wagnerian singing, he moves far outside their realm, emitting great shouts of despair like boulders from a mighty sling, whispers of love and croons of anguish, and (at times) a variety of parlando inflexions uncomfortably approaching the Schoenbergian *Sprechgesang*. Step outside Vickers' third act for a single moment and you may find yourself blinking incredulously at the quality of the acting, dangerously close to ham. The genius of the performance lies not least in its willingness to live dangerously.

It is good to see and hear Lindholm again. The voice is perhaps an acquired taste—the persistent vibrato can infuse acid harshness as well as Nordic sensuality into the timbre—and its limits in encompassing radiance and rapture are fixed, though (it seems to me) a good deal less so than in the past. But in her Isolde one senses a new passion, an enriched dramatic presence, a deepened emotional range—the surprising freshness and grace of the *Liebestod* on Friday showed not only that the soprano had paced herself well in the role but that she belongs fitly to it. Yvonne Minton's beautiful Brangäne (voiced just a little less sumptuously than at Bayreuth) is new to the house; Donald McIntyre's Kurwenal is long familiar and still in sturdy form, though there is too much stagey over-reaction in the first act and too much troubled head-nodding in the third. Howell's Marke deepens at each encounter. Despite all the earlier qualifications and the terrific price of the t icket this *Tristan* is eminently worth a visit.

Arts news in brief

Harveys of Bristol are associated with the 13th Lake District Festival, which takes place from May 23- June 14 by sponsoring three events. The company has also made a substantial contribution to the costs of the advance publicity leaflet and other promotional material.

The first of the events to be sponsored by Harveys, on Friday May 30, at The Barn House, Charlotte Mason College, Ambleside, "*. . . But Then Face To Face*," an entertainment with discussion and readings from the works of Blake and de Quincey about their concepts of childhood with Melvyn Bragg (chairman), Rrevel Lindop and Robert Osborne.

ectond Harvey's-backed event is on aSturday, May 31, when the Lake District Festival Orchestra, performs at the Parish Church of Kendal with violinist Erich Gruenberg.

Third sponsored events will be on Sunday, June 8, at the Beehive, Charlotte Mason College, Ambleside, when Bernard Lloyd, a member of the Royal Shakespeare Company, will read a specially commissioned miscellany of poems about John Keats.

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The Royal Academy will be the venue in September of a fine art and antiques fair which will not only continue the tradition of the Antique Dealers' Fair but will include the Burlington Fine Art Fair which has always specialised in paintings. Entitled The Burlington Fair (Burlington Fine Art and Antique Dealers' Fair), it will be presented by arrangement with The Burlington Magazine.

President of the Fair is Sir Hugh Casson, President of the Royal Academy of Arts.

The Fair will be open daily, including Sunday, from Tuesday, September 9 to Wednesday, September 17.

*

Nearly 30 smaller cultural organisations have received cash grants from the Greater London Council's arts committee during the past financial year.

Reviewing the allocation of £672,000 made in arts grants over the past 12 months, Mr. Freddie Weyer, GLC arts committee chairman, said: "Even in these days of cuts in spending the amount we have distributed is an indication of the positive support we make to the arts. This amount is nearly double our allocation to small organisations made during the previous year. This is in addition to the special grants we make to the major performing arts organisations who are recognised as a special case."

Jazz in Nottingham

The Jazz Centre Society is continuing its series of events at the Black Boy Inn, Market Street, Nottingham, with an apearance by the Peter Jacobsen quartet on Wednesday May 21. Led by Jacobsen on piano the group comprises Chris Biscoe (alto-sax), Paul Carmichael (bass) and Tony Marsh (drums).

The JCS will present Ian Carr's Nucleus as art of the Nottingham Festival on Wednesday June 11.

'Middle Age Spread' cast changes

Rodney Bewes and Francis Matthews will take over the starring roles of Collin and Reg from Richard Briers and Paul Eddington in the comedy *Middle Age Spread* at the Lyric Theatre on Monday, June 16.

Also joining the cast will be June Watson as Elizabeth in place of Marjie Lawrence and Lucy Fleming as Judy in place of Judy Loe. Tom Chadbon and Sheila Grant stay as Robert and Isobel.

Wigmore Hall

Hammond-Stroud

by PAUL DRIVER

Brahms's *Die Schöne Magelone*, which was presented by thet baritone Derek Hammond-Stroud and Geoffrey Parsons last Friday, is almost but not quite a song-cycle. The settings are of the 15 "romances" that Ludwig Tieck added to his "love story of the beautiful Magelone and Count Peter of Provence" to represent the songs in which Peter (and on one occasion Magelone) give vent to their fluctuating (mostly solitary) sentiments and passions. The richly assorted moods do make a definite progress, but the story itself, its wonderfully improbable epic vicissitudes, are not (could not be?) implied with sufficient clarity for the sequence to be properly self-contained. Accordingly, Derek Hammond-Stroud interspersed between the songs quite lengthy extracts from the original prose.

Perhaps greater autonomy and cohesion would have resulted if Brahms's musical palette had been wider. The songs beg for a fleet diversity of treatment: they are heroic, dreamy, tender, impassioned, fanciful, suffused with the softness of youth, as the opening stanza splendidly indicates: "No-one has yet regretted/mounting his steed/in the bloom of youth/to fly through the world." But Brahms is only really able to render the most clear-cut emotions—fervour, easy jogging nonchalance, four-square solemnity. Tieck's reflective poetry has been just drained away; the tone has become horribly middle-aged. Obviously the deftness and lightness of a Schumann were called for here. Or else the more mercurial writing of Brahms's late piano intermezzi?

What Brahms does offer is impressively solid and elaborate construction of the individual songs. Many of them are drawn out to almost cantata length, with appropriate division into sections and changes of tempo (one of the best is *Wie soll ich die Freude*, no 6). This aspect was well understood by Hammond-Stroud and Parsons: the latter's piano-playing seemed in fact to have seized utterly the spirit of Brahms, conveying both its strengths and limitations. He made the very best of a bad job. Hammond-Stroud though was disappointing. Expression and intonation had been sacrificed to mere richness of vocal timbre. Admittedly there isn't much scope for nuance: but the songs came across as even more uniform than they are. And intonation was quite startlingly inadequate. Mr. Hammond-Stroud might have been practising *Sprechstimme*: the intervals were regularly bent out of shape; hardly a note (especially in the upper register) was true. The evening was chiefly captivating for its re-telling of a marvellous old story.

Hammersmith, Odeon

Eric Clapton

Eric Clapton is one of the most perverse performers in rocks. In a 17-year career, which reached an early peak with the "Clapton is God" graffiti of the late sixties and a later slump as he fought heroin addiction, Clapton has rarely been able to find the right balance between his guitar virtuosity and the pressures of fame. Now he seems to have settled for a safe mediocrity.

Of course Clapton can never be completely boring: he can still throw off blues solos scarcely matched outside the American south and he has an instinctive feel for rock and roll. Yet his current band and repertoire hardly stretches his talent and too often he is eager to step back into the shadows and let other musicians like Albert Lee take the vocal and guitar solos. The Hammersmith concert on Friday was mildly enjoyable when you knew that if Clapton had cared it could have been very exciting.

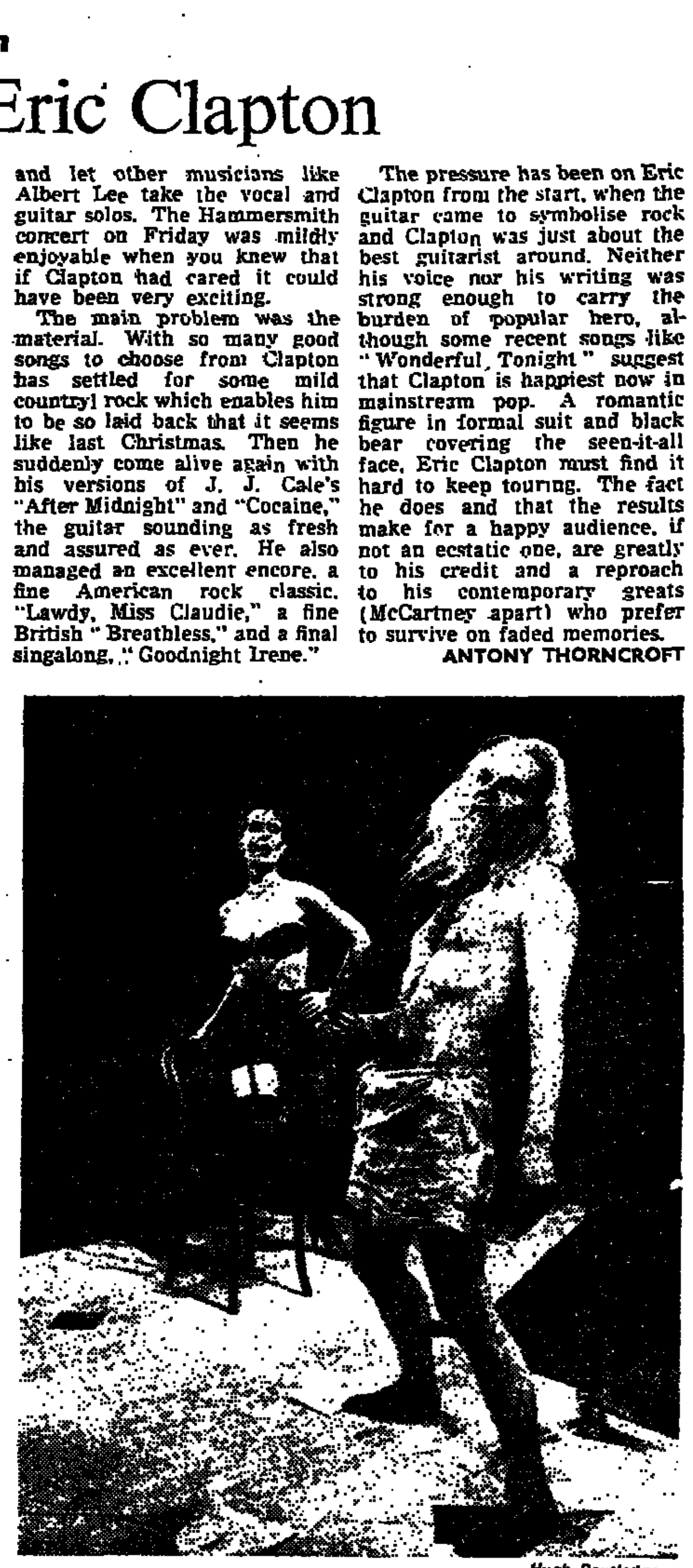
The main problem was the material. With so many good songs to choose from Clapton has settled for some mild countryl rock which enables him to be so laid back that it seems like last Christmas. Then he suddenly come alive again with his versions of J. J. Cale's "After Midnight" and "Cocaine," the guitar sounding as fresh and assured as ever. He also managed an excellent encore, a fine American rock classic, "Lawdy, Miss Claudie," a fine British "Breathless," and a final singalong, "Goodnight Irene."

The pressure has been on Eric Clapton from the start, when the guitar came to symbolise rock and Clapton was just about the best guitarist around. Neither his voice nor his writing was strong enough to carry the burden of popular hero, although some recent songs like "Wonderful Tonight" suggest that Clapton is happiest now in mainstream pop. A romantic figure in formal suit and black bear covering the seen-it-all face, Eric Clapton must find it hard to keep touring. The fact he does and that the results make for a happy audience, if not an ecstatic one, are greatly to his credit and a reproach to his contemporary greats (McCartney apart) who prefer to survive on faded memories.

ANTONY THORNCROFT

Theatre Upstairs

Seduced



Hugh Routledge

Celia Imrie and Ian McDiarmid

Henry Hackamore in Sam Shepard's new play is a dramatic portrait of Howard Hughes. He lies in a dentist's chair in the latest hotel room where he has gone for refuge from daylight and reality, constantly ready for another midnight flit. White hair and beard, untrimmed for years, turn Ian McDiarmid's face into a head by William Blake. Uncut finger nails have grown into curved talons a couple of inches long. He wears only a pair of grubby white shorts. Raul, a long retained bodyguard, massages him but does not wash him, and restores his wasted vigour with periodical transfusions of blood plasma. Raul wears a revolver in a holster slung outside his flowered shirt.

Hackamore, feeling the approach of death, wants to live again. He sends for girls that he enjoyed in his livelier years and for the kit he wore as a flying man. The tension mounts through a fairly slim provision of events; the girls (Kate Fahy and Celia Imrie) successfully encompassing their ungrateful requirement to look 15 years beyond their prime) do a modest striptease and tell their avid one-man audience tales from their life, until their audience relapses into imbecility and has them removed.

But all this is merely a long preparation for a final surprise, and little that takes place in the first 90 minutes of the play, however interesting, rates as more than character drawing for the protagonist. The nature of the surprise it would be unfair of me to say, but I give nothing away if I say that as a theatrical moment it seems to me to rank below the appearance of the first of the women, when the black curtain that has protected Hackamore from the piercing rays of reality outside unexpectedly rolls back to reveal Miss Fahy waiting upstage.

I was anxious most of the time to know what was going to happen next — perhaps too anxious. I felt after the conclusion had revealed itself, for here the play slips into a different, a more conventional and less interesting pattern. Most of all I was fascinated by Ian McDiarmid's acting, so much entrusted to the play of expression on the face and in the voice (perhaps intractably young), shifting from arrogance to suspicion to concupiscence to plain senile dementia.

As Raul, Larry Lamb is confined mostly to the dutiful subservience of a strong underling to a stronger superior, until his part in the critical final scene turns him into a type familiar from half-a-dozen television dramas a week: but what he has to do he does neatly.

The director is Les Waters, and the designer, whose achievement is less modest than it seems at first, is Peter Hartwell.

B. A. YOUNG

CRICKET BY TREVOR BAILEY

The gap between club and county

LAST WEEK, on an attractive Glasgow ground, Derbyshire, who certainly are not the most formidable of the first class counties, routed Scotland, newcomers to the Benson and Hedges Cup.

After the 10-wicket victory with more than 20 overs to spare, some Scottish officials were rather more disappointed than they need have been. Whether the Scottish selection committee had provided their manager, Brian Close, with the strongest squad available was really immaterial. The important point was that it gave Scottish players the opportunity to compete against stronger opposition, which can do nothing but good.

After all, it should be remembered that the strongest teams chosen from minor counties north and south of England have played 20 games in this competition and have yet to win a single one. The match essentially emphasised the vast gap dividing county from club cricket.

The club batsman receives a far higher percentage of loose deliveries, which means he can make runs without having to score off good balls. To make matters more difficult for him in limited-over cricket, the bowling side does not even have to dismiss the opposition, as a succession of maidens is just as effective.

I still remember the puzzlement on the face of a very good club cricketer who had been drafted into the Essex team against Derbyshire on a green wicket. With the aid of a couple of uncharacteristic lives and charmed outside and inside edges, he managed to exist for 45 minutes, which was no mean feat.

On returning to the pavilion, he apologised for not scoring more runs. He could not understand why he had not received a half-volley, completely unaware that this was a delicacy which Messrs. Jackson and Gladwin did not normally serve up more than once in a complete season, and never on a "green top" at Burton.

With Hendrick, the present Midlanders' seam attack looked ordinary by Derby standards, so it was not surprising that the Scottish batsmen struggled even more against accurate spin to defensive fields. This had also been the case in their previous match with Leicestershire. The reason is that club batsmen are seldom happy against good slow bowling, or genuine pace, because they seldom encounter either.

Although John Wright, the New Zealander, has developed into a most accomplished opener who would certainly command a place in the present England XI, stroked his way to an effortless 80, I was impressed by Moir, a very tall Scottish slow left-armer, but he would need to improve his fielding if he was to represent a first-class county.

By the end of this week, two clubs from each of the four zones will have moved in to the knock-out sectio nof the Benson and Hedges Cup. D is the toughest group. Not only does it contain five counties, but four of them, Middlesex, Surrey, Kent and Somerset, possess the strength to carry off the title.

Of the other groups, the hardest is B, containing Northants, Worcestershire, a rejuvenated Warwickshire, under new skipper Bob Willis, and Yorkshire, while the weakest, group C, includes the holders, Essex, who should be through, despite their rather surprising defeat by Gloucestershire.

In Group A, Lancashire ought to go into the quarter finals, while this also provides Nottinghamshire with their best chance of securing their first major honour since the war.

There is no doubt that the best place to make runs in limited overs cricket is as an opening bat. This was underlined when in all but one of the eight Benson and Hedges Cup matches on Saturday, the highest individual score in an innings was recorded by a player going in first. They also provided four of the six centuries.

The two main advantages of opening is that the batsman always has a chance to go to the middle and also has time to settle down after he has arrived. When the need to accelerate arises, he is well set. If he is an accomplished batsman, he does not even then have to slog, simply to improvise, which explains why Amiss, Turner and Boycott have all been so very successful in this form of game.

TENNIS BY JOHN BARRETT

Clay courts keep the action

DESPITE the blazing start to the summer season which has brought the grass courts to life—fast and true and on schedule for the first time in years—the main action for the next two weeks remains on clay.

At home, the Pernod circuit comes to a climax later this week with the Masters play-offs at Bournemouth.

With three wins already at Teddington West Worthing and Lee-on-Solent, John Feaver of Dorset will try to stake his claim to the number two singles spot for the first Davis Cup tie against Romania in Bristol next month.

His chief rival, John Lloyd, who is still languishing in the cut-throat world of Grand Prix qualifying tournaments, will next week play in his first home tournament since the Benson and Hedges last November.

He joins his brother David, Mark Cox, the new Davis Cup trainer, and the former Wimbledon doubles champions from South Africa, Bob Hewitt and Frew McMillan, in the Langs West of Scotland Championships in Glasgow.

Today in Rome the U.S. No. 4, Vitas Gerulaitis starts the defence of his second Italian title, hotly challenged by most of the world's great clay court experts.

A notable absentee is the new U.S. No. 1, John McEnroe, who currently heads the Volvo Grand Prix points table ahead of Jimmy Connors who beat him in the final of the WCT Tournament of Champions in New York two weeks ago.

McEnroe prefers the less frenetic atmosphere of Munich in preparation for a major assault on next week's French championships, the first Grand Slam meeting of the year.

Meanwhile at the beautiful Rot-Weiss club in Berlin the Federation Cup, the International Tennis Federation's World Team championship for women, begins today. It is in its 18th year and is richly sponsored for the first of three years b ythe Nippon Electric Company of Tokyo.

Not surprisingly, the Americans with eight wins (including the last four) and Australia with seven have dominated the competition since it was launched in London in 1963.

The competition has grown in stature year by year and once again America and Australia are cast as likely finalists.

With the world's No. 1 and 2 women in their side—17-year-old Tracy Austin and Chris Evert-Lloyd—there can be little doubt that the U.S. will be strong favourites.

Britain's captain, Virginia Wade, is the omst experienced of all Federation Cup players. She has competed in 45 ties and played 83 rubbers since she first came into the side in 1967, when the competition was last played in Berlin.

To the superstitious that fact augurs well. Britain reached the final that year but olst to the Americans.

To reach the same stage this time, Miss Wade, Sue Barker, who is not at her best just now, with two losses against the American wonder girl Andrea Jaeker, and Glynis Coles must overcome first Isreal, which should not be beyond them, and then Argentina, who will prove much more of a handful.

Significantly, their leader Ivanna Madruga, beat Miss Wade last week in the quarter finals in Perugia and then lost her semi-final to Ruzici.

British hopes will rest on Miss Barker defeating Cdaulia Casablanca, and winning the doubles if necessary.

oFr all the players this period of the year is a build-up to the French Open and then Wimbledon. It is significant that Miss Austin will return from Berlin to California to prepare on fast cement for a really serious attack on Wimbledon.

She has chosen to miss the French Open, as has Martina Navrativola, who will be awarded the World Champion Trophy at the International Tennis Federation dinner in Paris on June 2.

Both players feel that the mental and physical strain of competing in Paris on the slow clay with the inevitably long rallies would dull the edge of their Wimbledon challenge.

Mrs. Lloyd on the other hand needs the match play desperately and will be defending her title in Paris.

Beyond that lie two grass court tournaments in Britain—the Crossley Carpets Tournament in Chichester beginning June 9 and the BMW Championships at Eastbourne the following week.

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Moscow courts the West

THE WEST is now in possession of two apparently beguiling Soviet proposals for international negotiations aimed at getting detente back on the rails. On Wednesday of last week, Moscow's client regime in Kabul made a slight improvement on earlier offers of a formula to resolve the Afghanistan crisis that has plunged super-power relations to such a low ebb over the past five months. The following day, the Warsaw Pact nations launched a new "peace initiative" that included calls for a world peace conference, a European disarmament conference and East-West negotiations on long-range "theatre" nuclear weapons in Europe. *Both offers have been greeted with scepticism* by Western Governments, many of whom had been expecting just such a move from Moscow at around this time.

Nuclear missiles

The Warsaw Pact initiative is designed to serve several purposes. It is intended to demonstrate that the Pact is a peace loving alliance, NATO an aggressive one—it came just one day after the NATO countries had agreed on redoubled efforts to strengthen their defences in the wake of the Afghanistan invasion. It is meant to sow fresh doubts in the Allied countries about NATO's plans to deploy a new generation of "theatre" nuclear missiles in Western Europe, *thus reducing Moscow's superiority* in that sector by holding out the prospect that they may no longer be necessary. And it is part of the continuing Soviet campaign to split Western Europe from the U.S., and among itself, by playing on the dove-hawk divisions in West European societies.

The Afghan initiative has similar motives—and, indeed, while the immediate American reaction was to treat it with deep suspicion, Europeans, and not just those on the left, were more inclined to see it as a possible basis for negotiation. More specifically, the timing of the proposal suggests that it had two main short-term purposes—to reassure wavering West European Olympic commitees that it would be all right to go to Moscow, and to persuade the Islamic countries which met in Islamabad at the weekend to moderate their earlier condemnation of Soviet behaviour.

The offer as it stands is clearly inadequate. The suggestion that Soviet troops might ultimately be withdrawn appears to be contingent on their presence being rendered unnecessary by the extinction of all opposition to the Soviet-backed regime. The negotiations proposed would involve the recognition of that regime. The notion of Iran as a party to the negotiations would be laughable if the issues involved were not so serious. There is no guarantee of the inviolability of the most important border, that between Afghanistan and the Soviet Union. The Kremlin's aim seems to be first to establish respectability for the status quo and then to think about what to do next.

Arms control

The main significance of the Soviet move is that it shows that Moscow is feeling uncomfortable about its continued presence in Afghanistan. The Soviet leaders clearly underestimated both the extent of the outcry that would follow the invasion, not only in the West but in the Third World, and the military difficulties it would encounter on the ground. There is no harm in the West probing to see if, behind all the smokescreens, Moscow is seriously interested in a genuine solution. But until that is clear there can be no relaxation of the West's efforts to put the Russians in the dock internationally and shore up the threatened countries of the surrounding region. Moscow must not be allowed to think that it may have got away with it.

At the same time, it would not be inconsistent for the West to seek progress in the one major area in which there is an over-riding need for mutual understanding—that of arms control. The tension created by the Afghanistan invasion makes it even more important to prevent an unbridled arms race. Ideally SALT 2 would by now be ratified and SALT 3 under way. Little, perhaps, can now be achieved until after the U.S. Presidential election. In the meantime, however, the West must make it clear it is still interested in further negotiations — subject to two important provisos. Firstly, it must be made quite clear to the Soviet Union that the aim of such negotiations is balance, not codification of Soviet superiority. Secondly, Western Governments, and particularly the Europeans, must not be deluded by Eastern "peace initiatives" into lowering their guard before such balance has been achieved.

Ohira loses a round

THE DEFEAT of the Ohira Government on a motion of no confidence in the Japanese Diet last Friday probably shocked the *Opposition parties as much as it* did Mr. Ohira. The Liberal Democratic Party, of which Mr. Ohira is President, has a small overall majority in the Lower House of the Diet (Parliament) and would easily have avoided defeat if all its members had been present. The fact that about 70 were absent during the crucial vote explains why the Government fell.

But that itself requires explanation. Why did Mr. Ohira's enemies in the party choose to push their campaign against him to the point of bringing down the Government?

One answer seems to be that the anti-Ohira group had not originall yplanne dto boycott the Diet session and was only provoked into doing so by the premature summoning of the session while it was bargaining over the terms on which it would support the Government.

In-fighting

Another reason for what happened ca nbe found in the nature of the LDP. Formed in 1955 through the merger of two earlier conservative groupings, the party has never been much more than a loose coalition of the personal followings of a handful of powerful individuals. Alliances between the various leadership groups have traditionally determined who should be Premier, but sectional infighting between party bosses has also been endemic.

In the recent past, tensions in the LDP have increased sharply, with the group led by Mr. Ohira finding itself "under siege" by the anti-mainstream faction supporting ex-Premiers Takeo Fukuda and Takeo Miki. Mr. Miki and Mr. Fukuda dislike Mr. Ohira because of the way he came to power (by drawing on the financial support of another major faction leader, the disgraced former Prime Miniser, Kakuei Tanaka). They do not differ widely from him on major policy issues. But a series of corruption scandals, including one involving large-scale gambling debts by one of Mr. Ohira's political associates, has given them a stick with which to beat the party leadership.

The immediate result of the Friday debacle will be *dissolution* of the Lower House and the calling of a General Election (timed for June 22 to coincide with a previously scheduled election for half the seats in the Upper House). The necessity of fighting an election less than a year after the last General Election, held in October 1979, will strain the resources of all six Japanese political parties. On the other hand, it appears just possible that the rival factions of the LDP may now close ranks and fight a more effective election campaign than last year.

Bargaining

If the party does not recover its unity and loses its overall majority in the Lower House, an extremely complex position will result. There will be bargaining between individual LDP factions and the small centre parties which stand just to the left of the ruling party. The centre parties could find themselves on the Government side of the House for the first time in 25 years, though only as members of what would probably prove to be an extremely shaky coalition.

What does not seem likely, however badly the Liberal Democrats fare, is the emergence of an Opposition coaltion headed by the Japan Socialist Party. The JSP lost seats at last year's election. It is probably even less anxious than its rivals to fight an election now, in spite of the fact that it sponsored the no-confidence motion against the Government.

Whether the LDP survives its self-inflicted wounds, Japan's ability to play an active role in the world and tackle its own economic problems will be seriously impaired in the next few weeks. Mr. Ohira will, at best, be a shadowy figure at the Venice Economic Summit, whose first session will coincide with polling day in Japan. At worst, the country could be in for a prolonged period of instability at a time when it badly needs strong Government.

The pressures on Pakistan to accommodate Moscow

BY DAVID HOUSEGO IN ISLAMABAD

THERE IS a widely held belief among Pakistan *officials that the late Prime* Minister, Mr. Zulfikar Ali Bhutto, when hard pressed by his opponents during his last months in power in 1977 made a hurried flight to Libya. There, through the good offices of Colonel Gadaffi, it is said he offered the Russians transit rights from Afghanistan through Baluchistan to a base on the Arabian Sea, partly in the hope of gaining Russian support for his beleaguered regime. No documents exist to substantiate this offer of a warm water port. But circumstances make it likely as Mr. Bhutto's manoeuvrings at the time certainly embraced a reconciliation with Afghanistan and the style of diplomacy was very much in character with the man.

President Zia Ul-Haq's regime is categorical that it would strike no such bargain with the Russians. A good reasonf or believing this is that it would earn the bitter hostility of the Chinese and the Moslem world to whom Pakistan looks as its staunchest allies in the wake of Russia's invasion of Afghanistan. But the invasion and what is seen here as the West's acquiescence in it has put enormous pressure on General Zia to reach some accommodation with the Russians.

They have repeatedly signalled—and did so most strongly last week through the new peace initiative put forward by the Afghan regime—that they want him to rein in the operations of the Afghan insurgents who, among the 700,000 refugees this side of the border, *find in Pakistan a valuable sanctuary*.

They want him to talk directly to the Babrak Karmal regime in Kabul which would amount to giving it *de facto* recognition. To drive home that the message is serious, the Russians have been demonstrationg their power. The number of violations of Pakistani air space have been increasing.

If the Pakistanis fel the need to lean closer to the Soviet Union it is largely because the belief in Islamabad is that the U.S. is unwilling to comit the resources to challenge the Soviet Union in South West Asia. "Our impression," according to one official, "is that the U.S. is wrapping up in this region. It is no longer prepared to fulfil its obligations as a super power." From that perception flowed the regime's decision in March to reject the U.S. oer of $400m in military and economic aid as being of a size that was provocative to Russia—and to India as well— while not providing the means to resist Soviet pressure.

The rejection—part of a history bungled relations between two states which have continually failed to establish a base of *mutual understanding—is* re-regretted by many Pakistani genearls who believe the country's natural ties are with the West. But it amounts to a conscious decision to kep *Pakistan out of the western camp*. A gain from this for which Pakistan is hoping is what one official calls "a softening of Soviet hostility" which has continued since Pakistan left the long defunct CENTO and the SEATO alliance that were originally designed to curb Soviet expansion.

It is also looking for more understanding from its other main adversary, India. *Mrs. Gandhi* initially feared a fresh arms build-up in Pakistan. But of late she has tried to reassure Pakistan, not least in conversations with President Zia in Salisbury and Belgrade, that it faces no military threat from the East and that there could be advantage to both sides in normalising *relations*.

Thus Pakistan is fumbling towards a position in which its security in effect rests on the goodwill of its neighbours, on the moral strength of neutrality and non-alignment, and on the support of the Moslem world now gathered in Islamabad. It has few resources to spare with which to enhance its own defence capability and there is little sign of the significant funds which once seemed promised from Moslem states like Saudi Arabia. China, whose most effective support in the past has been its ability to threaten India from the north in the event of an Indo-Pakistan conflict, can provide only limited aid in the present circumstances.

All this weakens Pakistan's ability to resist continuing Soviet pressure. In policy terms the belief that Pakistan cannot afford to confront the Russians is reflected in a shift of emphasis *from giving priority to the withdrawal* of Soviet troops from Afghanistan to recognising that in practice the Russians will not leave however strong the continuing denunciations of their occupation.

Thus on Friday Mr. Agha Shahi, Pakistan's Foreign Affairs Adviser, proposed that the Islamic conference set up a committee of foreign ministers to explore the opportunities of a political solution in Afghanistan and left open the possibility that the committee might have contacts with the Babrak Karmal regime. Until now General Zia has resisted such contacts as potentially legitimising the Afghan regime and many Moslem states continue to hold that view.

In going this far to meet the Russians, General Zia hopes to discourage them from making mischief for him by backing his political opponents or supporting secessionist movements in Baluchistan or Sind. In return he may be willing to impose a further restraining arm on the Afghan insurgents—a move that would be strongly resisted by the insurgents who have no wish to be sacrificed to the cause of improving Pakistan/Soviet rela*tions and have the numbers and* the arms to resist such a settlement with force.

Many Pakistanis see no option but accommodation with the Soviet Union. But it is one of *the ironies of the present situation* that such an attempt at diplomatic tightrope walking, which has its roots in the Bhutto years, should be made under a military regime whose instincts, traditions and training are profundly anti-Russian and anti-Indian. It may be that a civilian administration could not have got away with it without provoking resistance from the armed forces.

The drawback is thta though the army is the one institution effectively displaced the two — General Faiz Ali Chisti and General *Mohammed Iqbal* — most likely to displace him.

He has been enormously helped by the emergence of Pakistan from its isolation that came with the Russian invasion and the stature that comes from moving among other heads of state. He has allowed the army to share all his enjoyment of power and the privileges that go with it.

But once that has been said, it still remains that he cannot afford to test the legitimacy of capitalise on, demonstrating that hte alternative appeal in *Pakistan is to a socialist semi-Marxist ideology*.

General Zia has cast his net among the more traditional power bases of the country—the village landowners, the Mullahs or local priests, the traders of the towns and the military.

These have ben the backbone of previous martial law regimes but General Zia has gone beyond them in his policy of Islamicisation declaring that an Islamic state based on Islamic law had been the intention of

in Pakistan with the authority to determine policy, the direction it gives is distrusted both because of the unpopularity of successive martial law regimes and because it is tainted with responsibility for the breakup of Pakistan in 1971.

Anybody travelling through Pakistan's four provinces cannot but be struck at how unhappy the country is, despairing of its failure to find any lasting solution to the problem of transferring power from military men to civilians, of regional allegiances asserted with increasing force which strain the unity and ideology of Pakistan; of the unease of the emotional and politically conscious people who miss the excitement of political life; and, ultimately, of doubts about what *has been achieved during 32* years of independence.

A striking exception to this mood of despondency is General Zia himself, whose confidence and tooth-filled grin seem to expand with every month in power. He has continually defied the predictions of countless Pakistanis, diplomats and reporters — myself included — who had doubted that he could last. *He has just completed a remarkable* reshuffle of his fellow generals which has put him firmly on top of the pack and his régime by a popular vote (as Ayatollah Khomeini has done in Iran's new Islamic republic) because in a free election the régime would undoubtedly be thrown out and with a vindictiveness that could tear the country apart. He need the controls of martial law to remain in power, though at times he can afford to relax them. But between the leadership and the street a wide gulf remains where discontent periodically bubbles to the surface and the risk of an explosion never seems far away.

General Zia has effectively cut the ground from under the established political leaders by involving them in so many compromises as to destroy their political credibility.

What he has not been able to do is to remove that base from which Mr. Bhutto first recruited his mass movement in 1968 which then overthrew President Ayub Khan. This lies in the urban and rural poor, the half educated and unemployed whose numbers continue to grow in a country of 81m, where the population continues to increase at a hefty 3 per cent *a year and in which per capita* income is only $200. It was their grievances that Mr. Bhutto was abel to articulate and then to the founders of Pakistan.

Initially General Zia's Islamic policies were only timidly challenged because in a Moslem country it is difficult to oppose Islam and the political parties which swept Bhutto out of power did so in the name of Islam. But they have been more forcefully contested of late as has been his assumption that Pakistan was founded as an Islamic sttae.

The latest challenger to throw the hat into the ring is Mr. Bhutto's daughter Benazir, recently out of prison, who staked the oppositon case before the potentially hostile audience of the Karachi Bar Association 10 days ago and got a warm reception. She claimed that the military-mullah oligarchy had distorted the ideology of Pakistan to benefit it themselves but had "betrayed the masses."

Citing Mohammad Ali Jinnah, Pakistan's first president and founder, she claimed he had intended a state that would be "secular, socialist and federal."

It is a definition that attempts to regain for the People's Party thta she has in effect inherited *from her father its revolutionary* image, appealing to the same mass base as he once did. By implication it is anti-American and in foreign policy in favour of opening a dialogue with Babrak Karmal's regime. If the West can resume detente with the Russians, she asks, why cannot Pakistan with its neighbour Afghanistan?

Whether she continues to lead the party or somebody else takes the reins, the Marxist alternative remains as potentially appealing in Pakistan as it does in Iran—where the Mujahedin offer an Islamic socialist alternative to Ayatollah Khomeini.

The alleviating factor for General Zia is that after the virtual collapse of the economy towards the end of Mr. Bhutto's years—as a result of natural calamities and disastrous policies—both agricultural and industrial output have since picked up. Gross Domestic Product has grown at an annual 6 per cent during the last three years and this year there is likely to be a record wheat and cotton crop. Some of this is due to the luck of good harvests, but the Administration has also been attemptingto push the economy in the right direction—raising prices to stimulate production and removing some of the subsidies that have encouraged a misuse of resources. The economy has also benefitted from a big inward flow in remittances of $1.6bn a year—almost as much as from total exports—from Pakistani workers abroad.

Private investment in new industrial activities remains insignificant, though there are now signs that some new projects will go ahead. State sector investment shows little increase in real terms because the Government has been trying to hold down the budget deficit to the present 3-4 per cent of GNP. Subsidies absorb a large proportion of state revenues and additional expenditures on defence and supporting the Afghan refugees have imposed a further burden.

The severe restraints on the economy created by the budget deficit have been exacerbated by a running balance of payments crisis. In autumn last year Pakistan's foreign exchange reserves fell so low that there seemed a real threat of its defaulting on international payments. Since then a stronger than expected export performance and $400m of balance of payment support from the Saudis have boosted reserves to about $800m.

Pakistan is desperately seeking debt relief of about $230m a year from western donor nations which would ease its payments position. But this is being opposed by the U.S. which does not feel Pakistan fulfils U.S. criteria for a debt rescheduling including acceptance of an IMF package. Whatever merits this opposition might have in U.S. Treasury terms, it chimes oddly with the U.S.'s earlier offer of $400m of aid and with the overall U.S. strategic concern to strengthen South West Asia against possible Russian expansion.

MEN AND MATTERS

Sailing back to Thatcherisation

Speculation is rife among Britons in New York about the intentions of Gordon Booth, who set off for London at the weekend after a five-year stint in the twin functions of Consul-General in New York and Director-General of Trade Development in the USA. Just what exalted position in industry awaits him —after some well-earned leave— Booth declines to say, admitting only that he has something lined up "in international business." Offers of this type have not been thin on the ground during his years in New York, he confides.

Booth's main claim to fame is that he helped teach New York to love Concorde—"with a little help from the courts—they don't sing 'we love Concorde' in the *streets every day*." *Booth says* modestly. But he is no doubt right in claiming that New York's position as a gateway to the nation has been reinforced by Britain's expensive white bird and its twice-daily cargo of "100 tycoons pouring off ready to do business."

Describing himself as "a volunteer to be Thatcherised," Booth is leaving the Civil Service two years ahead of the retiring age of 60. He decided to board the QE II home in preference to one of the Concordes he championed—feeling that three hours 10 minutes represented an indecently speedy Thatcherisation.

Boxing clever

I realise that making fun of the driving licence computer at Swansea is a trifle passé, possibly—like Irish jokes—even non-U But for old time's sake I will mention the experience of a friend who carefully filled in his name and address in the little boxes at the top of his driving licence form, then, where this information was required again, wrote "AS ABOVE" You might imagine that he now has a licence in

"Don't worry, Smith. Sometimes poor arithmetic works out all right in the end."

the name of As Above. Not at all. Computers are not daft. They know no-one is called "A." The licence was return to Mr. Asa Bove.

Biscuit crumbs

Not content with representing "95 per cent of British biscuits and packaged cake manufacturers," the Cake and Biscuit Alliance is clearly making a bid for an even more central role in world affairs.

A message on my desk informs me that members of the Cake and iBscuit Alliance have been given a clear indication that the Saudis have got over the upset caused by the television film "Death of a Princess." That indication came at the alliance's annual conference in Bournemouth, where one Sheik Wahibsaid Binzagr said: "We can assure you that the recent reporting image that brought Saudi Arabia to the surface of the world news in no way affects the decisions of the decision makers in Saudi Arabia. But sometimes some actions need to be taken even if they are not wanted in order *to make a message clear and* better read." Got that? It was apparently approved "at the highest level" in Saudi *Arabia*.

Blowing the gaff?

The reputation of New York's labour unions, or at least that of their leaders, does not improve.

Douglas LaChance, leader of the Newspaper Deliverymen's Union, is the latest figure to be dragged unwillingly into the limelight, having just been convicted of no ess than 124 counts of racketeering, bribery, tax evasion and other sundry felonies Technically, be could qualify for a total of 2,480 years inside.

The LaCchance cse hs, paradoxically, been something of a a tonic to publishers in the New York area, who for years, have darkly complained that there is *still one area of New York commerce* where is it not uncommon to be caught between organised crime and unscrupulous labour organisers.

This view was given some credence at the LaChance hearings, the centrepiece of which was a taped conversation between the union boss and one Peter Dipalermo, described by the prosecution as '*a convicted hoodlum*." On the tape(LaChange appeared to be discussing payoffs received for a delivery deal on El Diario, a Spanish language newspaper.

Low voltage

The distinctly un-British good weather, and resultant lethargy, seem to be seeping into every corner of the national life. A reader queuing up at Her Majesty's Stationery Office on Friday found that the man in front of him was from the Central Electricity Generating Board. It appears that a mere *four* days after the Government's decision to refer the next round of electricity price increases to Monopolies Commission, the CEGB was sending for *10 copies of the Competition* Act, which made the move possible. No doubt the relevant paragraphs helped to cool down the wekend for the CEGB's 10 top men.

Linear stocks

Land, most people would agree, is a sound investment: as Mark Twain once remarked, they stopped making it. But curiously, British Rail is facing some steep uphill gradients trying to dispose of its 1,485 remaining miles of redundant line.

"Most of it," says a BR spokesman, "is in country areas in relatively short strips. We'll never sell all of it—we're bound to be left with a hard core." Ownership of old railway line frequently involves maintaining fences, tunnels, bridges even viaducts (some of them listed). Moreover, the building of the railways in the first place disturbed whatever drainage existed. So owning a piece of railway line also means owning an intricate system of drains which needs to be cleaned out from time to time if the neighbouring landowners are to be kept happy.

Curiously, these minus points were all volunteered to me by British Rail itself. Caught in a fever of rail travel promotion which has incited the nation to hover round Persil packets like wasps round jam, BR appears to have little energy left for marketing these last relices of Beechingisation. They are changing hands at ludricrous prices. Bolton Council, for instance, has just bought 2½ miles of line for £1—Boltonians will be able to look forward to one of those now-familiar linear walks.

Silent witness

Not to be outdone by the Japanese, the Andorrans have, I am told, designed their own video recorder. Its main feature: "Records the programmes you don't like—plays them back while you're out".

Observer

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FINANCIAL TIMES SURVEY
Monday May 19 1980

WORLD BANKING

PART ONE: PART TWO WILL APPEAR ON TUESDAY MAY 27

With so many problems revolving around their heads it is just as well that the world's banking leaders have over the years developed a number of sophisticated mechanisms for dealing with such difficulties. This year has already given warnings of severe tests ahead.

CONTENTS

Shocks from all corners

By Michael Lafferty

THE PAST year has brought more than its fair share of shocks to the international banking system. The nightmare of a massive country default has frequently seemed more than a possibility as the Iranian crisis has gone from bad to worse in the wake of the seizure of the U.S. hostages, and President Carter's Iranian assets freeze in the U.S. The freeze has had an impact far beyond the U.S., and not least in London, where some $3bn of frozen funds is deposited with U.S. bank branches. While all this has been developing the Russian invasion of Afghanistan added further uncertainty, and banks were forced to reconsider their exposure to Comecon countries.

To cap it all, rumours of impending bank collapses have been around for several months. These have been fuelled by doubts about the extent of banks' losses on bond portfolios in the wake of a major collapse in prices, and by the possibility that some banks may have been caught out by the large fluctuations in currency parities and commodity prices. A touch of reality was added last month when the First Pennsylvania Bank had to be rescued and the Bunker Hunts came unstuck in the silver market.

In his own small way the recent crisis of confidence in the Argentinian banking system, during which depositors queued up last month for hours outside bank branches to withdraw their deposits has been part of the overall picture. It has served to demonstrate what a fragile creature confidence can be, and how important basic central bank supervision is. The fact that a number of U.S. and European banks were caught out with loans to Banco de Intercambio Regional (BIR) despite long-standing rumours in Argentina about its standing seems to confirm how little many banks still know about each other, and more importantly, about how to gather and interpret the information required to evaluate risks.

The Iranian affair has often been highly confusing. In the immediate aftermath of the U.S. freeze it ws not clear whether Iran had defaulted on certain loan obligations, or had simply been prevented from paying up by the U.S. action. Certainly a number of bankers in London have been critical of what they regard as precipitate action by Chase Manhattan to declare Iran's $500m syndicated loan in default.

Then came the legal actions. First, Iran initiated action in the British courts to have funds deposited with U.S. branches in London unfrozen. Then Chemical Bank scared the wits out of British banks by seeking an injunction which effectively would have prevented the movement of any Iranian funds within the British banking system. The injunction was never used in this way, but British banks remain worried that some U.S. bank whose loans to Iran are not covered by frozen deposits may yet seek to improve its position through action in the British courts, should Britain ever implement its own Iranian assets freeze.

The prospect of this happening has long worried the Iranians. They first sought to take action just before Christmas last year, by asking that term deposits with the London clearing banks should be repaid immediately. After hurried discussions with the Bank of England the clearers united on a policy that contract should be honoured on all sides. The deposits were not unwound, and that particular crisis passed. Everything seeming to be on the mend until April, when it became clear that the U.S. would be asking EEC countries to take supportive action in another effort to bring about the release of the hostages.

The Iranian banking authorities saw this coming and desperately sought ways of shifting $4bn of unfrozen deposits out of the EEC area. But they were soon to realise that little could be done. Apart from the fact that banks were reluctant, to say the least, to unscramble term deposit arrangements it soon became apparent that there were few sizeable banks outside the U.S. and EEC areas capable or willing to take on substantial new Iranian deposits. This, in turn, led to rumours, now largely discounted, that Iran had placed substantial sums on deposit with Eastern European banks. What is clear is that it has been using the Libyan and Algerian central banks as a conduit to place further funds from its oil exports in the Euromarket.

Despite all that has happened in Iran, many Western bankers still retain considerable confidence that everything will eventually come right. They point to the country's oil wealth and basic soundnes, and probably some conclude that it is not necessary to write off any loans at all. Auditors must be agreeing, for there have few qualified audit reports on this point.

The rationale that a country like Iran cannot really go bust hits particular difficulties when it is applied to a country in the Eastern European Communist bloc. After Afghanistan, bankers have become concerned that in certain circumstances the Soviet Union could actually use a default by a Comecon member as an economic weapon against the West. Whereas many bankers had been looking at Comecon as a total risk and allocating their exposure accordingly, there now seems to be a tendency to look at the riskiness of individual Comecon borrowers.

In this context the highly exposed position of Poland, which has a debt service requirement this year alone of $8bn—amounting to 70 per cent of the country's hard currency income—has come in for particular scrutiny. Adding to banks' difficulties is the very low quality of the information provided by the Polish Government. It is probably true to say that no company seeking a loan would dream of going to its bankers with such poor accounts.

While Iran and Afghanistan have rendered shocks to the system the commercial and central banks of the world have been worrying about the massive re-cycling job which remains to be undertaken after the last round of OPEC oil price rises. This year responsibility for doing the job rests entirely on the banks. Despite the massive dimensions of the OPEC surplus — estimated at $115bn on current account, against $60bn last year—there seems to be growing agreement that the commercial banks can manage this year. But many leading bankers doubt whether the same can be true in the coming two years. Quite simply, banks need to maintain some limit on the ratio of deposits or assets to their capital, and in many cases they are required to do so. They are also affected by liquidity requirements.

So much discussion now centres on whether ways can be found to channel OPEC funds directly to country borrowers. One unlikely possibility suggested by the OECD would be bond issues by developing countries. Like good investors, the oil-rich nations would prefer to rely on Western banks they regard as sound risks, rather than go direct to country borrowers. The chances are that they will have to compromise.

There have been many calls for the International Monetary Fund to take on a large role, and assist in the recycling process. To do this it will needs to increase both its gunding and lending. A 50 per cent increase in quotas seems to be on the way. After the recent IMF interim committee meeting it emerged that the Fund is now actively seeking new resources as a means of tapping the oil wealth of Opec.

Commercial banks now find themselves subjected to almost opposite pressurse in the Euromarkets. On the one hand they hear the view — and often expres sit themselves — that if they are to do all they can for recycling they must be free of all controls. In practice, this seems to mean that banks should be allowed to undertake avst risks in relation to their own resources. On the other hand, the BIS statement of April emphasised the risks inherent in international banking. It said the BIS would step up its own monitoring of the Euromarkets, and it drew attention to the need for national authorities to supervise their own banks' international business more closley.

As more attention has focussed on international bank supervision, the central banks of the worl dhave come to recognise the extraordinary dearth of information which exists in the international banking business. So they have launched a campaign for consolidated accounts — surely the most basic of accounting documents. They have also encouraged the International Accounting Standards Committee, the London-based body which issues recommendations on international accounting standards, to develop a discussion paper on bank accounts. Before this could be issued some central banks got cold feet. They were up against the fact that accounts whic hcontained secret reserves — and most bank accounts outside the U.S. have these — were misleading. hTe document was finally "published" a few months ago, but little has been heard of it. The number of central banks which have distributed it is not known.

It is a curious anomaly that institutions which depend so much on useful information about other entities financial affairs should themselves publish much that has at best limited use. The issue came into focus recently when banks from all over the world bambarded the U.S. Fed with objections to its proposals for the disclosure o fbasic accounting information by foreign bank holding companies. The principal point made by the numerous objectors was that the Fed had no business regulating banks which were already adequately regulated by notional supervisory authorities. Just how well equipped some of these national supervisory agencies are to do their job properly is not clear. Judgin gfrom some of the submissions to the Fed, they do not have much accounting information to go on.

WORLD BANKING II

The Economic Background

The task of recycling

OPEC SURPLUSES

PETER MONTAGNON

RESPONSIBILITY for recycling OPEC oil surpluses this year is back fairly and squarely in the hands of the banks.

The world's leading finance ministers and central bank governors, meeting in Hamburg in the IMF Interim Committee were clearly agreed that recycling is the most pressing problem for the international monetary system. But there were no signs of any speedy initiative on the part of the Fund to alleviate the strain.

The IMF is not, at the moment, short of lending resources. It was a net borrower from member countries last year, and still has some $25bn available for lending.

The problem, as far as its neediest members are concerned, is that they consider the conditions on which these funds are lent too onerous. As long as possible these countries prefer to satisfy their needs through the banking system.

This is scant comfort for the banks themselves, which are increasingly prone to doubt their own ability to manage the recycling process on the required scale. They feel the task is being made all the more difficult by growing calls for better control of the Euromarkets, which can only lead to more restrictive lending practices.

The dimensions of the problem remain enormous. The IMF estimates that the OPEC countries will have a payments surplus on current accountt his year of some $115bn compared with about $60bn last year, and a near balance in 1977.

Against this the industrialised countries are likely to show a deficit of $48bn this year and the developing countries one of $68bn.

Such a worsening of the world's payments imbalance coincides with a concerted drive by central banks for increased "transparency" in international credit markets, coupled with improved supervisory techniques to keep the banking system healthy. A statement in April from the Bank for International Settlements (BIS) was a landmark in this respect.

The BIS spoke of the increasing risks inherent in international banking. It said it would step up its own monitoring of the euromarkets and it drew attention to the need for national authorities to supervise their own banks' international business more closely.

This raises the question of bank liquidity and capital adequacy. In its latest review of the syndicated lending market, for example, Amex Bank notes that there is a distinct prospect of a deterioration in the capital ratios of U.S. banks.

The bank says capital ratios would deteriorate if domestic deposits rise as the U.S. recession encourages clients to keep more funds in liquid form. At the same time the growing OPEC surplus will raise the level of deposits in the international banking system with the same effect on ratios. Capital adequacy could deteriorate further if loan losses arise, it adds.

Amex Bank also suggests that the ratio of international loans to total lending of U.S. banks has now in some cases gone well above 50 per cent. Given the rising awareness of the dangers of risk concentration and the low profitability of international business there is an increasing desire to slow down this growing internationalisation of loan portfolios, it says.

Restraint also looms for banks in other parts of the world.

It is thus easy to understand why banks are sceptical of their ability to shoulder again the burden of recycling. For many the answer to this question depends on how deep the ideas for control set out in the BIS communique will actually bite.

Margins

Curiously enough all this is happening at a time when the margins above London interbank rates are still very narrow i ninternational lending business. A top-rated international borrower such as Belgium can still command a margin of ⅜ per cent rising late to ½ per cent for a seven-year loan, while Brazil's latest borrowing contains a 10-year element at such a split margin of 1 and later 1¼ per cent.

One reason is that borrowers, confused by high interest rates and the volatility of the syndicated credit market after the U.S. freeze of Iranian assets and the Soviet invasion of Afghanistan, have been holding back from the market.

But there are some fundamental considerations keeping spreads down. One is the liquidity in the market as banks take in a growing volume of deposits from OPEC countries. Another is that many developing countries managed last year to increase their reserves by borrowing to cover future requirements.

This means that they are better able to cope with financing their payments deficits this year without resorting to large-scale new borrowing.

That has taken some of the urgency out of the recycling problem. It means that the IMF is probably right when it suggests that the banks can cope this year; that does not mean, however, that the same is true for 1981 and 1982.

Next year for example the IMF expects the current account surplus of OPEC countries to fall to $87bn and the deficit of industrialised countries to drop sharply to $17bn. But the deficit of the developing countries, which causes the most concern, will rise to about $78bn.

This will inevitably place a strain on the banks, even if they have managed to bear the brunt of recycling this year.

From their point of view one of the most suitable solutions would be to seek to assist the recycling process through business that by-passes balance sheets. Thus the OECD has suggested that scope remains for bond issues by developing countries.

In view of the collapse of internaional bond markets in the first three months of this year the argument hardly seems convincing. But it is worth noting that a number of developing countries, including Brazil and Mexico, did float bond issues at times when the market were more favourable.

An extension of this approach would be for banks to arrange private placements for borrower countries to be sold directly to OPEC investors. This was done recently by Denmark which raised DM 50m through Westdeutsche Landesbank. The loan was placed exclusively with a single OPEC address.

Such a process need not even involve a bank. The West German Government has already this year raised several billion D-marks through the sale of premisory notes to Saudi Arabia, a move which was followed by the sale to the same country of Y50bn in national bonds by the Bank of Japan.

New men at the top

BANK FOR INTERNATIONAL SETTLEMENTS

DAVID MARSH

THERE ARE several reasons why 1980 will go down in the annals as a memorable year for the Bank for International Settlements (BIS), the secrecy-shrouded central bankers' bank in Basle that serves as the world's monetary watchdog.

The most public sign will be the festivities next month to commemorate the 50th anniversary of the bank's foundation—a half-century during which the BIS has become a unique forum for international economic co-operation. Basle will not exactly be set alight. But central bankers from all around the world will be celebrating the occasion with a fair degree of panache.

Second, this year—or possibly early 1981—will see the retirement of Mr. René Larre, the 65-year-old former French Treasury official who has served for nine years as general manager in charge of the bank's day-to-day running at its sumptuous headquarters near the Basle railway station. His departure may not make much difference to the public face of the bank. But the retirement of M. Larre—a man who gave stalwart service to Gen. de Gaulle and who made no secret of his distaste for the break-up of the gold-based fixed exchange rate system at the beginning of the 1970s—certainly marks the end of an era in which the BIS has adapted itself to generalised floating of exchange rates and the phasing out of the formal monetary role of gold.

Promotions

The third and most important change affecting the BIS also concerns a switch of personalities—but goes far beyond the confines of the bank's Basle HQ. It involves a far-reaching series of retirements and promotions among the governors of the world's top central banks who sit on the main board of the BIS and who travel regularly to Basle for the central bankers' monthly discussions. The composition of the group has undergone a comprehensive change over the last nine months or so: there are new men at the helm of six of the 11 central banks in the industrialised world's power club, the Group of Ten and Switzerland.

A number of familiar faces have said their goodbyes, and new ones—many of them a lot younger—have arisen to take their place. Several of the governors who have just retired, including Dr. Otmar Emminger of the West German Bundesbank, M. Bernard Clappier of the Banque de France and Sig. Paolo Baffi of the Banca d'Italia, have given sterling service to international monetary affairs over a period stretching back to World War II. But there is no mistaking that their replacements, for the most part, also embrace a remarkably internationalist outlook — and many of them also are men of greater pragmatism and diplomacy whose talents are badly needed in helping to steer the world economy through a particularly trying period.

Of the new intake, the most significant replacement has been that of Mr. Paul Volcker for Mr. William Miller as chairman of the Washington Federal Reserve Board. Mr. Volcker, who has a long track record in private banking, at the U.S. Treasury and, in the past few year, as president of the New York Federal Reserve, has long been a familiar and confidence-inspiring figure for the rest of the central banking circuit.

The move of Mr. Miller to become Treasury Secretary in President Carter's Cabinet shake-up last July was not regretted. Several central bankers had complained that Mr. Miller introduced a rather jarring air of brusqueness into the cosy confines of the Basle "gentleman's club."

Another important new face at the governors' monthly consultations has been that of Herr Karl Otto Joehl, the new head of the Bundesbank, who took over from Dr. Emminger at the end of last year. Like Mr. Volcker, he is a lot younger than most of his central banking colleagues (the two men are aged 52 and 50 respectively). They also share a common experience of the wider world of politics: Mr. Volcker and Herr Poehl were opposite No. 2s at the American and German Finance Ministries during the currency cirsis days of early 1973, and became well acqainted during this period.

Herr Poehl's first few months at the helm of the Bundesbank, in which it has twice raised discount rate tand taken a range of other unpopular credit tightening decisions, appear to confirm that he will be no less steadfast than Dr. Emminger in carrying out the central bank's traditional hard money policies. But he combines the commitment to fighting inflation with a sense of humour and an air of relaxed pragmatism which marks him out from the sometimes peppery Dr. Emminger.

The third major new arrival in the governor's group is Mr. Haruo Maekawa, the new governor of the Bank of Japan, who took over this year from Mr. Teiichiro Morinaga. Mr. Maekawa became well known to many of his fellow governors in his former capacity as deputy governor, and enjoys a particularly close friendship with Dr. Fritz Leutwiler, the president of the Swiss National Bank.

His outlook is much more internationalist than that of Mr. Morinaga (unlike his predecessor, he speaks fluent English).

Bright spot in Community scene

EUROPEAN MONETARY SYSTEM

PETER RIDDELL

THE EUROPEAN Monetary System (EMS) has so far confounded most of the sceptics. It has worked rather well in the face of a strong resurgence of inflation and has largely fulfilled the initial goal of the creation of a zone of greater currency stability. Indeed EMS has been one of the few bright spots in an otherwise gloomy EEC political and economic scene.

Yet this success has been modest by comparison with the radical plans proposed at the Bremen and Brussels heads of government summits in 1978. Major questions about the future development of EMS, especially the establishment of a fully-fledged European Monetary Fund, remain unresolved.

The system as it eventually started in mid-March last year involved the linkage within specified margins of each other of all participating currencies (those of all EEC countries apart from the UK). The movements have been restricted to 2¼ per cent with the exception of the Italian lira, which has been allowed a 6 per cent margin.

Subsequently there have been only two realignments — the first, and major, was in late September when the German Deutsche Mark was revalued by 2 per cent against the other participants and the Danish krone was devalued by 3 per cent. The second, and minor change was in early December when the krone was again devalued, this time by 5 per cent.

Collapse

This was the smallest movement for eight years according to a European Commission report produced last March on the first anniversary of EMS. It noted that "intracommunity exchange rates were more stable than in any year since 1972" — that was when the Bretton Woods fixed rate system finally collapsed and the old currency "snake" started. Participants' exchange rates compared with the European Currency Unit showed an average change of only 1.9 per cent compared with an average of 5.2 per cent in the six preceding years.

The EMS itself can only be granted some of the credit for this greater stability. The period of exchange rate adjustment following the wide divergences in inflation rates and current accounts of the mid-1970s had largely been completed by 1978. So a gerater economic convergence, especially among the key participants, provided a favourable background for EMS.

This convergence has not, however, been in the direction originally desired by the architects of EMS. This is because the renewed surge of inflation from late 1978 onwards — intensified, though not created, by rising oil prices — has occurred in all EEC countries, not just those with existing high inflation rates. Indeed, thhe relative acceleration in inflation has been greatest in previously low inflation countries like West Germany and the Netherlands.

The absence of major disturbances despite external economic and political problems probably does, however, owe something to the acceptance by the participating countries — and especially by their central banks — of a common approach. This means not only that the banks have had to co-ordinate their intervention policies in foreign exchange markets more closely than in the past but also that monetary policies have also followed each other more closely than in the past. This has in practice meant that participants have had to take their lead from West Germany in applying a tough monetary policy — in what Mr. Gordon Richardson, the Governor of the Bank of England, has aptly described as "competitive non-depreciation."

Dollar/D-mark relations have been the main source of pressure within the EMS so far. Within three months of the start of the system there were complaints by the Belgians that West Germany's desire to hold up the D-mark against the dolar was pushing the Belgian franc down to its lowest permitted level within the system, requiring large-scale intervention.

These pressures might have been manageable for some time — as they were under the old snake — but for the oil crisis and the renewed pressure on the dollar in the late summer. This led to much greater demand for the D-mark compared with other EEC currencies and the resulting pressures forced the late September realignment. This was not entirely satisfactory to all the parties involved, but apart from the Danish krone devaluation the parities have lasted.

The pressures have been slightly different this year in view of the growth — and widespread discussion — of the West German current account deficit and the recovery of the dollar. Nevertheless, the Bundesbank has sought to hold up the D-mark in order to attract capital inflows and to fight inflation.

The consequent high, and rising, interest rates in West Germany have forced similar moves throughout the EEC. In some countries, notably Belgium, interest rates are now very high in real (inflation-adjusted) terms because of the need to maintain exchange rate stability.

The question of sterling's involvement in the exchange rate mechanism remains unresolved. Following talks between the German Chancellor Helmut Schmidt and Mrs. Thatcher in early March the issue was re-examined in London, but in a low key. The question is back on the agenda, but no more than that. This is essentially because domestic monetary factors remain of prime importance within the UK. The British Government has been reluctant to link sterling to other currencies in a system which would involve system which could involve large intervention obligations and capital flows which would jeopardise those monetary objectives.

But EMS was intended by its architects to be much more than an exchange rate mechanism. So far the plans for further development of the system have made little progress. Under the terms of the decision of the December 1978 summit the initial phase of EMS would come to an end "not later than two years after the start of the scheme." After the delayed start this meant March 1981 and, according to the resolution, the next stage would entail creation of a European Monetary Fund, full use of the European Currency Unit as a reserve asset—all based on "adequate legislation at the Community as well as at the national level."

To other countries' surprise the Belgians raised the subject at the Dublin summit last December. This led to a re-examination of the issues by officials from all EEC countries. (This includes the UK, which is fully involved in these discussions even though sterling is not linked to the other currencies.) These discussions did not achieve much apart from showing that major uncertainties remain about the form of the next stage—whether the existing arrangements should in effect be continued with the existing European Monetary Co-operation Fund being renamed.

The alternative is the establishment of a European Central Bank with widespread control over monetary policy and polling of reserves with the European Currency Unit developed as a real alternative to the dollar. This raises wide-ranging questions of national sovereignty, the role of gold and a multi-currency reserve system. The question has in practice been deferred as Chancellor Schmidt and France's President Giscard d'Estaing have decided to wait and leave a decision until after their elections.

System faces mounting challenge

INTERNATIONAL MONETARY FUND

DAVID TONGE

OVER A year ago, when the dollar was weak and seemed to require help in shouldering its burden as a reserve currency, the International Monetary Fund (IMF) began work on a scheme to allow dollars to be substituted by the Fund's own special drawing rights. That scheme has now been put on the back burner as the dollar appears stronger. Instead the IMF is concentrating on the problem of recycling capital surpluses to the countries that need them. And that is a problem which sems less likely to go away.

The Fund's own forecasts are gloomy. Its board of directors is not only anxious about the outlk for inflation and the stagnation of the economies of the industrialised countries. It is also disturbed about whether the monetary system in general and the commercial banks in particular will be able to keep the system working and handle the huge predicted surpluses of the oil-producing countries.

M. Jacques de Larosiere, managing director of the IMF, expects the surplus of the main oil exporting countries to be $115bn in 1980 and $87bn in 1981. He predicts the balance of payments deficits of industrialised countries falling from $48bn to $17bn. But he warns that those of the non-oil developing countries will rise from $68bn to $78bn.

In New York Citibank, one of America's leading banks, tells visitors that provided the rise in oil prices is a steady one the banking system will be able to handle the re-cycling problems involved, just as it handled the $60bn oil surplus of 1974.

But other banks and the IMF are less optimistic. At a meeting on March 19 the IMF Board of directors agreed that the large deficits of oil importing countries would not quickly fade. It talked of "warning signals" about the banks' ability to re-cycle these in 1981 and of indications that the banks might become progressively more cautious in recycling. Next year could prove a testing one indeed. "It looks pretty grim for most developing countries and the experience of Turkey does not make it easy fo rthem to borrow," is the tone which executive directors from developing countries adopt in private.

Last month's meeting in Hamburg of the Finance Ministers who constitute the IMF Interim Committee agreed that the IMF should play a greater role in re-cycling. But it is still too early to predict whether the IMF will be more successful in this than it was after the last oil crisis; it then agreed that it should play a larger role, but in practice most of the running was made by the commercial banks.

To play a larger role the IMF will need to increase both its funding and its lending. The first of these tasks is the easier. Its present iquidity is adequate, and, even if the U.S. Congress has dragged its heels about U.S. participation, a 50 per cent increase in quotas seems on its way. This would still leave the share quotas relative to international trade far below those prevailing when the IMF was established in Bretton Woods in 1944. A further, eighth quota review, has been proposed, but for the moment the IMF prefers to increase its borrowing.

Discussions

At present it has $8bn borrowed under the General Agreement to Borrow and $10bn raised for the supplementary financing facility, the so-called Witteveen Fund. The IMF Board does not consider further borrowing is an immediate necessity, but at Hamburg the Interim Committee authorised M. de Larosiere to start discussions with potential lenders.

The main capital surplus countries are the oil producers, and it has already been reported that Saudi Arabia, in principle, has agreed to lend bilaterally to the IMF. But OPEC members are adamant that any future arrangement should not be restricted to them: they argue that the oil facility established after the last oil price crisis brought them adverse publicity by focussing attention on oil. Their view is that their pricing policies reflect the way that oil is a finite resource and that the prosperity of the West has been built on cheap prices for it. They now wish any future arrangement to include other commodity producers or country groupings.

In this context it is important that the funds are borrowed cheap. The IMF's charges have long been below market rates, and developing countries are keen to see this continue.

While all these problems of funding seem resoluble, far more contention surrounds the issue of how the IMF can increase its lending. In 1979 repayments under the IMF's regular facilities exceeded borrowings by $3.1bn. Non-oil developing countries have not been flocking to its door. In 1978 they paid back $900m more than they borrowed. In 1979 fresh advances of $1.8bn only marginally exceeded repayments of $1.6bn. The main borrowers included Ghana, Jamaica, Kenya, Peru, the Philippines and Sudan. Turkey and South Korea have also signed significant agreements with the Fund.

But the disputes between Turkey and the IMF in 1978 and early 1979 and between Jamaica and the IMF today are indicative of the problems that can arise. M. de Larosiere has been keen to see the IMF more active in lending, but the developing world finds that the conditions it has to meet are rigorous.

Weapon

Hamburg itself saw little shift in the industrialised world's insistence that "conditionality" should continue to apply. It also saw the Third World temporarily disarmed of one weapon. The decision to go slow on the substitution account meant that the Third World, whose approval is required for the scheme's formal adoption, was unable to insist on a quid pro quo.

But there has been a slow evolution in the Fund's thinking. It is increasingly recognised by the IMF Board that countries need help in altering their economic structures to take account of the changed level of oil prices.

The new catch phrase is "structural adjustment." The March 19th meeting of the IMF Board saw this agreeing that the Fund's programmes while continuing to include demand management, should put greater emphasis on the "supply side" of economies in order to foster a stronger productive base and maintain growth.

The board also agreed on three further points. The first was that structural adjustment might require adjustment taking place over a longer period than normally prescribed by the IMF; IMF programmes might be necessary for up to two years, iwth indications of policies for the medium-term. The second was that there should be close collaboration with the World Bank which is also extending its programme lending to the area of structural adjustment. The third was that it might be necessary for the IMF to lend individual countries a larger multiple of quotas.

All this implies a modified role for the IMF. Traditionally it has provided balance of payments finance to countries in short-term difficulties. Its policies and attitudes are still conditioned by this. Moreover, the commercial banks, on whose support many of its country programmes depend, are insisting that they are in the business of banking rather than that of providing development aid.

WORLD BANKING IV

Search for more orderly system

INTERNATIONAL RESERVES

DAVID MARSH

THE CHANGING structure of the international reserves system has become a symbol of today's world economic disorder.

The dollar is no longer accepted as the sole important reserve currency, in part reflecting the relative shift in the political and economic balance of power away from the U.S. over the past few years.

Mounting payments imbalances and the liquidity-clearing efficiency of the international capital markets are creating a steadily growing stream of reserves flowing into the coffers of official monetary institutions in both the industrialised and the developing parts of the world.

Uncertin foreign exchange market conditions, the growing professionalism of central bank's currency management, and a new political dimension to currency risk since President Carter's Irainian asset freeze have brought sweeping changes to the way countries invest their official holdings.

Diversification away from the dollar, long practised by only the avant garde or the exotic among the developing country central banks, has now caught on among most countries outside the Group of Ten and Switzerland.

Even some of the industrialised countries are now making small but significant additions to their non-dollar holdings.

"Alternative" reserve currency countries such as West Germany, Switzerland and Japan are softening their traditional reluctance to allow their currencies to be used as reserve assets. And the U.S. itself can be seen leading the way into a new era by assiduously building up for the first time significant reserves of D-marks to help international central bank efforts to steady the dollar.

There remains a good deal of debate about whether a multi-currency reserve system—in which the dollar, while remaining the pre-eminent reserve asset, shares its role with an increasing number of other important currencies—inherently leads to unstable conditions on exchange markets. But there is hardly any argument now on the international finance ministers' and central bankers' circuit that such a system, for better or worse, has to be lived with.

Certainly, now that Germany, Japan and Switzerland during the last few months have been explicitly encouraging controlled diversification flows into their currencies as a way of strengthening them against the dollar, there is less evidence in favour rof the proposition that the multi-currency system is intrinsically destabilising.

Ironically enough, as Mr. Fred Bergsten, the assistant U.S. Treasury Secretary, pointed out at the beginning of this month, the development of a multi-currency system has been hurried along, if anything, by the demise of an institutionalised scheme fhich aimed to lower the importance of the dollar in world reserves.

This was the International Monetary Fund's plan for a substitution account, under which central banks wishing to dispose of part of their dollar holdings could exchange them for assets denominated in Special Drawing Rights.

The IMF had hoped to launch the scheme next year. But for a variety of political and technical reasons, it was put on ice at the international finance ministers' meeting in Hamburg last month, and looks highly unlikely to be resuscitated.

One of the most important factors influencing the Hamburg decision was the change in attitude on the part of the "alternative" reserve centres. Germany, in particular, had previously warned to the substitution account scheme as a way of deflecting unwanted diversification flows away from the Deutsche Mark.

But now that the Federal Republic and Japan are both deep in current account deficit, (Switzerland is facing a much reduced surplus this year and may even go into the red too) none of the "hard" currency countries spoke up for the proposal in Hamburg.

With the failure of the substitution account to get off the ground, the IMF's long-running effort to increase the importance of the SDR in world reserves has suffered perhaps its most serious setback. After the steep climb in the bullion price, the proportion of SDRs in total reserves looks even more puny when set against the share now taken by gold—which the SDR was originally designed to replace.

By opting for a multi-currency system regulated primarily by the markets rather than a rigid scheme administered bureaucratically by the IMF, the official financial community has set itself a large-scale challenge over the next few years.

Central banks in particular will have to find better ways of managing the de facto system of several competing reserve currencies in order to spread out the benefits and the disadvantages as evenly as possible.

One way of doing this which some central bankers have been mentioning recently would be to increase cooperation between the reserve centres within the Group of Ten and the large reserve holders, among the oil exporting countries and elsewhere, at present outside the club.

An idea of the difficulties of controlling such a system is given by the IMF's official figures for total world reserves at the end of 1979.

Applying the market price for gold (around $500 per ounce), the total came to around $830bn. Of this, foreign exchange holdings came to some $320bn, gold $470bn, SDR holdings $16bn and reserve holdings in the IMF $15bn.

Whatever the precise shortcomings of the statistics, there is no doubt that the totals involved have risen dramatically in recent years. At the end of 1972, the IMF's figure for foreign exchange reserves was only around $100bn; in 1976 $190bn; and in 1978, $285bn.

Of total foreign exchange reserves, the dollar's share is still around 75 to 80 per cent. Rough estimates split the remaining 20 per cent between the D-mark with more than 11 per cent, the yen and the Swiss franc 4 to 5 per cent each, and sterling, the guilder and the French franc all with 2 per cent and under.

The dollar component has in fact remained remarkably stable at around 80 per cent over the last decade, with the D-mark's share growing to a level comparable to that enjoyed by sterling at the start of the 1970s. But this apparent steadiness gives a deceptive picture of what has been happening.

A largepart of the gain in dollar reserves simply reflects the big rise in holdings of the main group of industrial countries—West Germany, Japan, Switzerland, France, Italy and the UK—which bought up large amounts of dollars during the currency's weakness of the late 1970s.

Recognised

The problematic structure of world reserve holdings has long been recognised. No less a figure than Mr. Gordon Richardson, Governor of the Bank of England, has spoken of the "relative decline in the U.S." and stated that it was difficult to believe that over the longer term so large a proportion as 80 per cent of the world's currency reserves would be held in dollars.

The other countries in the industrialised world, whose co-operation is required for progress towards a properly managed multi-currency system, are now at last showing signs of facing up to their responsibilities.

It is still far from clear whether this set-up will be more stable than any other reserve system with which the world has lived up to now. But with the financial markets fundamentally exposed to all kinds of potential disruption both from the OPEC surplus as well as from highly divergent inflation rates among the main currencies, the goal cannot be stability but rather avoiding too much instability—and here a multi-currency system may well prove to be an adaptable animal.

Barometer to watch

GOLD

MARTIN TAYLOR

ONE WAY and another, gold has had a lot of publicity over the past six months, not all of it favourable. To a central banker agonising over whether—and how—the metal might take a more important place in the world's reserve asset system, the gyrations in price pose an almost intolerable dilemma. They show once again that gold is both too important to be ignored and too hot to handle. From its traditional role as a stabiliser of the international monetary system gold, to some extent excluded from that system, has shown its power as a disruptive force.

For the partisans of gold's monetary role, the answer is simple: the metal should be rehabilitated as an international standard for settlements. Yet gold possesses a number of features which might be expected to disqualify it from such a role. Since the attempts to demonetise it, gold has behaved more and more like an ordinary commodity, at a time when commodity prices in general have been behaving in extravagant ways. Demand for gold from jewellers may be relatively predictable over the medium term; industrial demand is a different matter, now that rare metals are finding all sorts of new applications—warheads, in the case of gold. Gold no longer has that sublime uselessness which used to enhance it position as a pure numéraire.

Nightmare

The position of new gold supplies is a political nightmare. That the Western world should consider basing its economic system on a susbtance emanating from South Africa and the Soviet Union is too ludicrous to be ironic. No difficulties have been experienced so far with the two major suppliers, but there is no guarantee that things will be as satisfactory for ever. The possibility that South African supplies might be seriously disrupted at some stage in the future may be a good reason for hoarding gold now, but it makes the re-adoption of the metal as a standard rather hazardous.

The very fact, too, that by pushing troops into Afghanistan the Russians could double the valu eof their gold holdings is also a doubtful recommendation for gold as a standard of value.

The development of gold futures markets, while it must be welcomed by those with a genuine need to hedge physical supplies, seems to have amplified price fluctuations. The "sloshing pool" of Eurodollars which is supposed to leave the dollar open to unreasonable and drastic speculative movements, leads in general to more stable market conditions that the small supplies of physical gold, now that they can be bought and sold forward on margin. Of course, the U.S. authorities, by their spasmodic and unpredictable series of gold auctions, have only intensified the instability of gold.

But then if gold did return to a more central role in the world banking system, central banks would presumably take steps to avoid any Bunker Hunting. The most convincing argument for gold to resume some sort of role as a standard is that it might foster discipline among national monetary authorities and confidence among users of money. The popular theory that gold holds steady in value against the most basic of consumer goods over the centuries has taken something of a knock this year—unless you are unusually indulgent about blips on a chart. But despite recent speculative losses, investor confidence in gold generally seems to be higher than for many years.

The extraordinary price behaviour of gold over the last winter has of course reflected political as well as economic fears, although the two have been hard to disentangle. But quite aaprt from the co-incidence of accelerating inflation and heightened international tension in a uniquely sensitive area o fthe world, there were sound fundamental reasons for a solid advance in the price of the metal.

An end could at last be seen to the series of IMF auctions, which run their course this summer, and the enthusiasm of the U.S. Government for dumping gold on the market from its reserves to support the dollar has noitceably waned. On top of this, the improvement in the South African economy made it likely that the volume of official gold sales by the South African Government might be reduced, and Soviet selling seemed to have dried up for a time—perhaps because the higher gold price had enabled a set objective for raising foreign currency thorugh gold sales to be reached earlier than expected.

Then again, the success of gold as a hedge against currency fluctuations seemed to have persuaded even the most sceptical international portfolio managers that an increased investment weighting in gold was desirable—not on a trading view but as a strategic stance. Long before the Russian troops entered Kabul, a steadily increased demand for gold was in evidence.

Another key factor in improving sentiment among investors has been a tentative shifting in favour of gold of the long-ambivalent attitude of the central banks. It is still possible for U.S. officials to make speeches on international monetary affairs without mentioning the metal. But a number of other central banks have followed the lead of the Banque de France in revaluing their own gold holdings. The willingness of world monetary authorities to discuss the possible impact of world liquidity and inflation of their own acceptance of a higher gold reserve valuation is in itself a step towards remonetisation.

Pretensions

More significant still is what the central banks have not done. Not one of them sold gold in January, although they were happy to declare that the price was ridiculously high. A concerted sales programme to knock on the head for good gold's pretensions to reserve asset status would now be supported by fewer central banks than ever; the question now is to what extent central banks will be able to mobilise their gold reserves.

In between revaluations the central banks behave for the most part as if their gold reserves did not exist. But borrowing on the collateral of gold—as in the German Bundesbank's balance of payments loan to Italy—has been accepted, and the credit rating of Germany itself, if it chooses to borrow abroad, is as high as it is because of the country's large gold reserves. The Germans may not revalue their gold holdings but anybody can do the sums.

The European Monetary System has a facility for the settlement of debts between central banks in gold. Tenuous signs are emerging that central banks are prepared to treat the problems connected with their gold reserves as practical rather than theological questions.

This more pragmatic approach cannot be a bad thing, for gold is too firmly entrenched to disappear. Indeed, its staying power has always been one of its attractions. Gold may be a barbarous relic, deserving disapproval, but it is also a barometer, and barometers deserve attention. After all, "if you break the bloody glass, you won't hold up the weather."

هكذا من الأصل

Wholesale Banking

International tension shows cracks in the system

THE RAPID growth of cross-frontier bank lending has been further fuelled in the past year or so by the reappearance of the financial surplus of the OPEC oil producers.

Once again the international banking system is thrown the challenge of the recycling of international currency flows. But the need to step up international lending has come at a time when the strains of previous recycling activity have been starting to show through rather ominously.

Countries like Turkey and Zaire have been forced into drastic attempts to reschedule and renegotiate foreign borrowings. There is concern at the deficits and debts of certain other developing countries: Brazil is the name which is most often mentioned by bankers in this connection.

A further dimension of risk has been added by political developments. The revolution in Iran and the sanctions recently imposed by the U.S. and other countries have turned a major borrower into a serious credit risk—and have incidentally exposed structural weaknesses within international banking syndicates which have often been shown to be far from united in their approach.

Moreover the intensification of the international tension following the Soviet occupation of Afghanistan has cast a shadow over the West-East lending scene.

Borrowing in hard currencies by Comecon countries has been growing fast, but there is now a renewed awareness both of the political dangers and of the economic risks faced by big borrowers—notably Poland—which are having trouble in servicing their debts.

The need to find new ways of assessing their big existing international loan portfolios, as well as to judge the pros and cons of possible new commitments, has caused bankers to think more deeply about the subject of country risk. There have been attempts to develop a more objective approach to what has in the past tended to be a highly subjective area.

Inevitably there has to be a strong subjective element to the assessment of a purely political risk. The prospect of stability is obviously the key element here, and Iran provides a key example of how a comparatively highly rated borrower can go suddenly tumbling down the credit rating tables.

Normally, the short-term political risk is that a borrower will default. There was an unusual twist in the Iranian situation, however, in that the Americans froze Iranian dollar assets and so it was not entirely clear whether the Iranians defaulted or were prevented from fulfilling their obligations.

COUNTRY RISKS

BARRY RILEY

The distinction has turned out to be an important one, and has caused much strife within lending syndicates.

Economic risk—the inability of a country to meet its commitments, even when there is a political will to do so—is more amenable to quantitative assessment, although the lack of reliable statistics may be an obstacle.

Requirements

Factors that are important here are the size of external debt, its rate of growth, the level of exports relative to debt service requirements, and the level of gross national product per capita. Many different economic and demographic elements may, of course, be analysed in this type of risk rating system.

From the banker's point of view what is important is not so much a country's existing performance as its potential ability to adjust in a crisis.

A high import propensity may not be such a disadvantage if there is a large element of inessential consumer goods which, at a pinch, could be done without. In many developing countries, however, imports will be largely made up of essential raw maetrials or capital equipment.

Other things being equal, a high GNP per head is better than a low one, since it means that output could be shifted in a crisis into improving the balance of payments. It is not as simple as this, however, because not all countries are capable of producing goods which can be traded internationally. This is a problem for some Comecon countries, for instance, even though their GNP per capita levels may be comparatively high.

In looking at exports, bankers will give high marks for diversity, and low marks for a concentration on a very few commodity-type products where price weakness could lead to balance of payments problems with very little prospect of remedial action.

Zaire and Zambia, with their dependence on copper, are examples of this type of problem.

A few banks rely extensively on such quantitative analysis, but probably most of htme lean more flexibly on both subjective and objective criteria.

The more cautious will rely on the direct personal experience and judgment of the *bank's executives, and will not* become exposed to countries where there is no direct knowledge within the bank.

Whatever the rating system, it is normal for banks to set limits on the exposure to individual countries. Of course, there is a price for risk and if the rewards are adequate — enough to allow appropriate loan loss reserves to be set up—banks will still get involved in what may appear quite risky lending.

Bankers tend to complain about the narrowness of lending margins, or spreads. But these can be misleading, *because finance ministers know* that prestige is attached to a low spread and are more willing to concede extra returns in less sensitive areas of the lending package, such as front end fees.

It is not unknown for banks to receive rewards from separate transactions as well.

Moreover, big banks often tend towards a portfolio approach to risk management. Individual risks may sometimes look high, but so long as they are spread in a diversified way the impact of a small number of individual defaults can be absorbed.

Umbrella

This approach can run into problems, however, when trouble hits a whole group of countries. A prime example of this is the Comecon group, where there is concern that the protective umbrella previously thought to have been provided by the Soviet Union could, in certain circumstances, now be removed.

Many bankers have in the past considered that the Soviet Union would come to the rescue when one of its allies found itself in financial difficulties.

There has been no legal basis for such assistance, but it has been felt that the Soviet Union would not wish the creditworthiness of the whole Eastern bloc to be tarnished by the problems of one of its members. Therefore Western bankers have often been inclined to assess Comecon as a whole rather than to look at individual countries.

In the changed post-Afghanistan climate, however, the political risks have increased. Bankers are concerned that in certain circumstances the Soviet Union could actually use a default by a Comecon member as an economic weapon against the West. So there is now more discussion of individual country risks within Comecon, and of course the highly exposed position of Poland has come in for discussion in this connection.

Such changes of attitude serve to highlight the way in which the perception of country risk can alter very rapidly. It is only about four years ago, after all, that the credit rating of the United Kingdom was at a very low level for an advanced industrial nation.

The rapid growth of North Sea production and soaring oil prices have, however, helped since then to push the UK to a place very near to the top of the country credit rating list.

Slow start in a cautious market

SYNDICATED CREDITS

PETER MONTAGNON

THE SYNDICATED credit market got off to a slow start in 1980. According to figures compiled by Morgan Guaranty Trust Co., the volume of publicised Eurocurrency credits in the first quarter amounted to only $10.1bn compared with $16.4bn in the same period of 1980.

This is a striking development when set against the widening current account payments imbalances that are emerging around the world following the very sharp increases in the price of oil. Normally one would expect countries with growing current account deficits to borrow more on international markets. That this did not happen probably reflects more than anything else the technically difficult situation of the market as the year began.

Last year saw a very rapid expansion of market volume with total new credits rising to $82.8bn from $70.2bn in 1978. They were thus almost double the amount of $41.8bn arranged in 1977. Keen competition for mandates led to strong compression of spreads, so that in June the French State electric utility EDF was able to sign a standby $1.1bn credit with a spread of only 0.15 per cent for the first two years, 0.25 per cent for the next four years and 0.35 per cent for the remaining four years. The largest borrower in the developing world, Brazil, was by contrast able to obtain a split spread of [illegible] and [illegible] per cent on its $1.2bn 12-year Euro credit signed in November.

By the end of the year, however, banks were becoming increasingly cautious. Not only were legal *lending limits* being neared in many cases; there was also growing concern about the low profitability of small spreads as well as the dwindling differential in pricing between prime - rated industrial borrowers and the less attractive risks in the developing countries.

Clamour

As a result the banks began to clamour for an increase in margins. Experience to date shows that their wishes have been fulfilled in a very limited way only, even despite the uncertainty generated by the U.S. freeze of Iranian assts and the Soviet invasion of Afghanistan. This did, however, herald a period of extreme nervousness in the syndicated credit markets during which both the banks and the borrowers held back. What emerged was a war of nerves, with the two sides playing a game of cat and mouse.

On the one hand several major borrowers held back from the market in the hope that things would settle down. Even if spreads were about to rise they were reluctant to be the first to be seen paying more. A further deterrent was the very high level of U.S. interest rates in the period up to mid-April.

Six-month Eurodollar rates at their peak were quoted around 20 per cent; at the start of the year they were *only about* 14¼ per cent. For every $100m borrowed this meant an extra $5.5m annually in debt service charges. For some borrowers this sort of cost was simply too steep, especially since in a number of countries the cost of raising funds abroad exceeded that of domestic funds.

At the same time many banks were also more cautious, believing that if they did not run after busines spreads would rise eventually. Some finely priced deals thus progressed rather slowly, including one seven-year $250m credit for the National Bank of Hungary with a split [illegible] per cent margin over prime or [illegible] spread over Libor and a 10-year $250m credit for Brazil's Petrobras with a split margin of [illegible] and 1 per cent.

This tactic has not worked properly so far. While it is clear that maturities have been falling, spreads have stayed low except in a number of special cases. Even during the period of restraint there were always banks that actively sought mandates to boost fee income. This played into the hands of the borrowers. As one American banker put it: "It was like a group of sailors looking at a solitary girl."

Now the question remains as to whether spreads will rise later in the year. The argument in favour of this says that borrowers will return to the market in force during the summer to catch up on the borrowings they delayed in the early months of this year. They could be all the more encouraged to do this by signs of a turn-round in U.S. interest rates.

Swamped

There are still, however, some fundamental arguments in favour of the continuation of the borrowers' market. The first, and most important, is that banks increasingly find themselves swamped with liquidity. The OPEC surplus is expected to rise to about $115bn this year from about $60bn last year. This money is finding its way into the banks and they simply have to find assets to match it.

At the same time banks have been experiencing run-offs in thetir existing portfolios, which they need new business to offset. Often they also have budgeted targets to fulfil and there is always the prospect of fee income for taking on management positions in international credi positions in international credits.

Since the beginning of April supply has also been boosted by the reappearance of Japanese banks in the syndicated loan market. These banks were forced to withdraw last October by their Ministry of Finance. For the current fiscal year, which runs to end-March 1981, they are expected to contribute a volume of some $5m to the market. This is not large compared iwth their activity in the past, but it will boost the available supply of funds for lending, especially since the U.S. banks do not seem to be suffering quite the constraint expected immediately after the last Carter economic package.

For the better rated borrowers, especially those in Western Europe, this should mean that there is very little upward pressure on spreads. Less well rated borrowers such as Brazil, which has a very large requirement indeed this year, will not escape so easily. The result should be at least a greater pricing differential between the various categories of borrowers.

Differential

How far this differential does in fact wide nwill depend on a number of factors. Over recent months international banks have become increasingly disturbed by developments in Iran and Afghanistan. Escalation of the tensions has made them much more selective and prompted something of a flight into quality in syndicated lending. If the situation deteriorates further borrowers in Western Europe will benefit accordingly while those in Eastern Europe and the Middle East will find their banks increasingly reluctant to do business.

On the other hand there is some doubt as to the extent of the surge in demand that may materialise in the summer: Many developing countries last year added substantially to their reserves as they were able to take advantage of the borrowers' market in syndicated credits. This may well permit them to continue to hold back fro mthe market for the rest of the year. Whatever happens, the upshot is that it has become peculiarly difficult for banks t o find the right price at which to lend.

Spurt in dollar issues brings record total

EUROBOND MARKETS

FRANCIS GHILES

THE VOLUME of new Eurobonds floated last year reached and all time record of $18.7bn, yet so did the volume of bonds which new issue managers were forced to hold, sometimes for many weeks before they could place them with investors. There have been signs of a change in investors' attitude, but that will not erase the painful memories of last winter.

As Mr. Ian Kerr of Kidder Peabody International recently put it: "For experienced Eurobond traders, 1979 may prove to be the year which made 1974 *seem fun. It began poorly and* achieved the unusual distinction of maintaining a course of almost consistent deterioration."

The root cause was the persistent fragility of the dollar and for months the international bond markets clamoured for strong measures to support it. Every lurch upwards in the dollar rates provoked the same reaction from most investors—too little and too late. In mid-October however, the recently appointed chairman of the U.S. Federal Reserve, Mr. Paul Volcker gave the markets what they wanted—a package which included a boost in the U.S. discount rate to a record 12 per cent.

The market reeled at Volcker's medicine: prices of seasoned issues fel by up to four point in the week to October 12. *First Chicago estimated that* straight and convertible dollar issues which, by October 19 totalled $5bn in face value for the year showed a capital loss of $245m, $200m of which was incurred since the end of September.

The market's fragmentation increased; in the week or so following the Volcker package there was no bid for many bonds and price quotations were widened across the board though only two market participants anonunced their decision to widen the spread in prices for the bonds they traded.

One of the houses was Kuhn Loeb Lehman Brothers, which earlier this year decided to narrow the list of issues it makes markets in to those which it had managed and co-managed.

The amount of bonds traded in a given transaction shrank dramatically, to less than 100 in many cases. The decline in transaction size had been a feature of the markets since the late spring of 1979 but it took on a dramatic aspect in the weeks following the Volcker package. However, the level of 25 bonds, touched in 1974, does not appear to have been reached.

The state of the secondary market earlier this year could be summarised as follows: despite some new arrivals in the Eurobond secondary market, *overall liquidity deteriorated* substantially in 1979, one of the major results being that at least one-third of all Eurobond issues have no effective secondary market.

Almost al the established trading houses have cut back their inventory to some extent and have reduced the total number of bonds which they trade.

Crisis

The crisis of last winter was *made much worse by the fact* that for a long time the dollar sector of the market was trying to have it both ways. The mispricing of issues had become the rule rather than the exception and this has compounded the problem of the trading sector.

Mispricing has been the direct result of the growing competition to get mandates and is not new. But with rising interest rates increasing the cost of carrying bonds, some bond houses have had to pay a very heavy price for not being able to place bonds quickly.

The mispricing of issues has also driven away many investors—particularly those of the retail variety. Initial mispricing has resulted in major capital losses for some private clients and, despite the rise in prices last month, the face value of many bonds is still well below that at which they were issued.

The boom in new issues which has resulted in recent weeks from the fall in U.S. interest rates and the very sharp rise in prices of seasoned issues, welcome as they are for new issue managers and dealers alike, will do nothing to help restructure the market internally. Primary mispricing has become such a way of life for many bond houses that it is difficult to see it changing. Leading institutional buyers of bonds are well known and thus are constantly approached by everyone in the market.

Syndicating new issues was made more difficult by the activities of the so-called "grey market" where pre-market bid and offer prices are quoted by an informal network of dealers, the best known of which are Ross and Partners (Securities).

Such activities are attacked by a number of new issue managers who claim that they effectively sabotage new issues by encouraging discounts in the price offered to important investors. The grey market defenders retort—with more than some justification — that the primary market has lost touch with reality.

Some bond houses did attempt to improve the distribution of bonds. In July S. G. Warburg reduced the full underwriting on a $100m issue for Sweden to a low 1 per cent and offered the bonds on a yield basis. They did the same in March on a $500m issue for the same borrower.

One borrower, the EIB, whose appetite for new funds is almost insatiable arranged an auction for an issue it managed itself. The formula worked once—but was not repeated.

Investor wariness with fixed interest rate paper turned attention to the floating rate market. A greater volume of floating rate note issues were arranged last year than fixed interest rate bonds.

Despite the fact that this *sector did suffer* somewhat towards the end of 1979 from the unwillingness of many new issue managers to differentiate between various categories of borrowers in new issue pricing, FRNs now appear to have been accepted by many institutional investors as a "must" for their portfolios.

Since Easter, the dollar sector of the Eurobond market, which went through another very sharp fall folloying the rise in U.S. interest rates to record levels in March, has been through one of the fastest rallies in its history. New issues worth more than $2bn were arranged between April 7 and May 7 while the level of activity in the secondary market was the highest for well over two years.

Not all market prticipants are convinced that this rally will wipe out the painful memories of last winter. Only the next few months will tell how many investors will not come back to the market.

By contrast, D-market sector has enjoyed a quieter year. On the face of it the volume of new issue activity was down. Coming at the end of a year during which the tribulations of the U.S. dollar have mostly made headlines, the slight contraction on the volume of foreign D-mark bonds issued may appear paradoxical—the paradox however, is more apparent than real.

International investors have been buying far more D-mark paper than the figure of $8.7bn for international D-mark bonds at first suggests. They have been buying Schuldscheine notes, some DM 10bn ($U.S.$6bn) of which are estimated to have gone into non-German portfolios last year.

Exact figures are impossible to come by but this figure is believed to represent a 50-100 per cent increase on the previous year.

Liquid

Schuldscheine are roughly equivalent to promissory notes. They are issued by a large number of federal and state agencies of the Federal Republic but only those issued by German banks and which carry a maturity of more than four years and one day can be sold to non-German investors.

Although amounts of notes as small as DM 100,000 can be bought, it is muc heasier to trade amounts of over DM 1m and u pto DM 5bn.

The size of transaction needed at this level the market is remarkably liquid—restricts the list of acceptable customers. This includes Swiss banks, international organisations, central banks and som evety wealthy individuals.

The D-mark foreign bond sector ha senjoyed a good year so far, but the volume of new issues is becoming more erratic to predict as the very sharp rise and then fall in U.S. dollar rates produced an expansion and then a contraction in the demand for D-mark paper.

However, even during the very fast fall in U.S. dollar rates last month, demand for D-mark paper remained strong after yields offered on such paper had been increased at one point to a record 10 per cent.

More new D-mark issues were arranged in April than during any month this year, over DM 1.2bn worth.

Convinced that interest rates had peaked everywhere, investors proceeded to move their funds out of time deposits and into longer term paper. This move also benefitted the Swiss franc sector which, throughout the past 12-15 months has essentially followed the trend set by the D-mark sector.

Other small sectors—sterling, French franc and guilder—flourished last year while the first ever Norwegian krone denominated bonds made their appearance.

But, to all intents and purposes, the dollar, D-mark and Swis sfranc remain the major issuing currencies.

Calls for money grow apace

SOVEREIGN BORROWERS

PETER MONTAGNON

THE SIZE of the Euromarket exceeded $1,000bn for the first time in the third quarter of last year. According to the Bank for International Settlements (BIS), gross external assets of banks in the Group of Ten leading industrialised countries together with Austria, Denmark, Ireland and Switzerland and of the branches of U.S. banks in the main offshore centres rose by $95bn during the quarter to total $1,042bn.

Commensurate with this, the growth in international leanding continued apace. The BIS has not yet published figures for the full year, but the Organisation for European Co-operation Development (OECD) calculates that new borrowing in international capital markets rose 15 per cent to $115bn in 1979. Of this, some $18bn was accounted for by Eurobonds, $19bn by foreign issues in domestic markets and $78bn by medium-term syndicated credits.

As before, a number of borrowers continued to grab the limelight. More than ever this continued to be the case with Brazil, whose borrowings from commercial banks totalled some $36bn by the end of June last year. At the moment the country's external debt is thought to exceed $50bn.

According to the country's Planning Minister, Professor Antonio Delfim Netto, Brazil's total external financing requirement this year amounts to some $12bn. Of this some $7bn represents debt service requirements and $5bn new money. Brazil has already decided to draw $2bn from its reserves this year to help cover the gap, but even so the figures have met with some scepticism on the part of the international banking community.

Brazil got off to a slow start with the borrowing programme, having mandated only two syndicated loans for a total of $600m in the first four months of the year. Banks are waiting anxiously to see when and on what terms they will be asked to come up with the rest of the money.

The other largest borrower in Latin America, Mexico, is in a much happier position as a result of the sharp increase in oil prices. Its gross external borrowing requirement appears to have been reduced to some $9bn this year from the $11bn expected earlier.

Mexico started off the year by concentrating its borrowing on short-term credits. Typical terms were three years at a margin over Libor of $\frac{3}{4}$ per cent. Recently it has been seeking to organise about $800m in medium term funding in connection with President Lopez Portillo's State visit to Canada, W. Germany and France. Terms it has asked for — $\frac{5}{8}$ per cent over seven years and a split $\frac{5}{8}$-$\frac{3}{4}$ per cent over eight — have, however, met with little enthusiasm from the banks.

Elsewhere in Latin America Argentina continues to get favourable terms despite the succession of banking problems which has plagued the country. Peru's economic situation has turned round sufficiently for it to be able to tap the syndicated credit market again. Venezuela, meanwhile, started in April to negotiate a very large credit of up to $1.8bn to consolidate its short-term debt.

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Services to generate fees the common aim

THE FEE'S the thing to go for in international banking at the moment.

Fee income is a common aim that unites commercial banks, investment banks, merchant *banks and universal banks as* different forces push them all towards this goal from different directions.

For the commercial and universal banks the driving force is the steadily increasing competition in the traditional business of taking deposits and lending. Where banks do not have territorial advantage — in large scale Eurocurrency lending for example — the most obvious evidence of this competition is the trend towards spreads which provide a barely sufficient return on capital and make no allowance for loan losses.

Where banks still have territorial supremacy, as the small State bank does in the U.S. and the big clearing banks do in the UK, that supremacy is gradually being eroded. Foreign and money centre banks are expanding in the U.S., and the London clearing banks are already feeling the draught from American and Japanese banks in Britain.

Coinciding with this squeeze on margins, a combination of depressed stock markets and the indifferent relative ratings accorded to bank shares have made equity finance for banks expensive. The result is an impasse: banks should be rapidly increasing their balance sheet volume to compensate for the lower margins, but they cannot because there is no way in which they can generate the necessary increase in their capital base.

So the search is on for more "added value" in each bank's activities. This means a trend towards services which have the twin advantage of generating fees and not requiring capital.

For this reason, "Service banking" has been the catchword of the commercial banks over the past decade.

Pressure

For the investment and merchant banks the increasing emphasis on fee income arises from a decade of pressure on the common denominator of their activities — the securities business.

More exactly, this pressure has driven them from one key source of fee income in search of others.

Both types of banks have tended to act as agent rather than principal in the supply of finance, and have tended to bring together sources and users of finance for a fee or a commission rather than pass the money through their own balance sheets, earning an interest differential.

The point is that the securities market has been a decreasingly vital generator of financing fees in the last decade. In the UK the fixed interest bond market disappeared as long term rates of interest reached a level which only the Government was willing to pay. The depressed state of the stock market has not encouraged corporate treasurers to raise equity *finance*. British industry has become increasingly bank debt orientated.

In the U.S. the pressures on the investment banking community have been even greater. They have resulted in a wave of security house amalgamations on Wall Street and in the disappearance of many prestigious names of the 1960s.

This has occurred because, unlike British merchant banks, many U.S. investment banks are also stockbrokers, deprived five years ago of a substantial part of their commission income.

The conspicuous profits made by Wall Street investment banks during the stock market boom of the late 1960s prompted eager to place them with customers for a distribution fee. Meanwhile both classes of U.S. security house were, and still are, protected from the big U.S. commercial banks by the Glass-Steagall Act of 1933 which barred commercial banks from issuing securities.

The stock market boom increased the financial firepower of big brokerage houses and increased the variety of securities which the investing public was willing to buy, weakening the controlling position of the issuing houses.

Then, when the stock market went into the doldrums, the placing power of the brokerage houses became a vital ingredient for successful underwriting where previously the end-sale to the investor was taken for granted.

It was this combination of forces which allowed Merrill Lynch to emerge as the most

INVESTMENT BANKING

NICHOLAS COLCHESTER

the introduction of negotiated rather than fixed commissions for stockbrokers in New York. Fatefully, the brisk wind of competitive pricing was unleashed on the industry in May, 1975, when the golden stock market days were well over.

The combination of negotiated commissions and depressed trading volume was the most important reason why some 350 U.S. brokerage houses and investment banks went out of business during the decade.

The pressure was also visible in the revenue mix of the New York security houses. In the mid-1960s over 60 per cent of their income came from brokerage commissions. At the end of the 1970s this proportion was down to around 40 per cent

It was this boom and bust in the brokerage business which brought pressure to bear on the traditionally lucrative and well-protected business of issuing and underwriting securities in the U.S.—the classic business of "investment banking."

Until the late 'sixties boom the august issuing houses—names like Morgan Stanley and First Boston—had managed to maintain a tight hold on the business of issuing the best class of corporate securities. Through the closely defined pecking order of the syndicate system they had kept brokerage-orientated houses like Bache or Paine Webber in check in their efforts to act directly for the issuing companies.

The issuing houses controlled the allocation of high-grade securities to brokerage houses formidable brokerage and issuing house in the U.S. To this day Merrill Lynch advertises itself to the corporate treasurer as the house which can shift a big issue of his securities into an unfriendly market.

The perceived necessity of combining "client power" with "placing power" has conditioned much investment banking strategy in recent years.

It was a formula exploited successfully in the link between White Weld and Credit Suisse in the international bond market. This liaison coupled the massive investment portfolios of the Swiss bank with the traditional corporate relationships of White Weld in the U.S.

The German banks, spanning the investment banking, fund management, and stockbroking businesses, were in a natural position to make a strong showing in the international bond market.

To those issuing houses without natural "base demand" for new issues the strategy has been to cultivate assiduously a small number of powerful investing institutions. To this end such houses have invested in the capacity to trade in securities—"market making" as it is known in the Eurobond market, or "block trading" in New York.

Through this willingness to engage as principal in the secondary market for securities, issuing houses offer a sort of "after sales service" to institutions which which they wish to place new issues. They also preserve daily contact with those institutions and keep closely abreast of market conditions.

It is notable how many U.S. banks—both investment and commercial because the latter are not so hampered by the Glass-Steagall Act abroad—have invested in trading ability in the last three years as a way of achieving greater success in the new issue market.

Unfortunately an unremitting bear market in dollar bonds has shown them what an expensive investment this can be. Some, like Amex Bank and Kuhn Loeb Lehman, have decided that the end does not justify the means.

Though the securities issuing business both in the U.S. and abroad continues to be lucrative, the uncertainty in the financial markets over the future course of inflation and interest rates has led to a preponderance of bank financing over security issues.

Recent events in the U.S. have, indeed, suggested that the U.S. long term bond market could be drying up in the same way that the British market did. This relative decline of the bond bond market, coupled with pressure on fees because of increased competition, has prompted investment banks to look for other areas where they can be of service.

Merger and acquisition business is one obvious area which has been extremely profitable of late. A successfully negotiated takeover of a large corporation can earn an investment or merchant bank a fee of several million dollars.

Financial consultancy is another growth area. Business has become increasingly multinational. At the same time the currency system has become more unstable and complex with floating exchange rates, fast moving rates of interest, and a bewildering number of sources and methods of finance.

The overall result has been to increase the financial element in business risk enormously and with it the need for financial consultancy. It is a need which the investment bank, with its small size, beguilingly prosperous looking executives and expensive consulting rooms, is well positioned to meet.

Investment/merchant banks are increasingly becoming the McKinsey's of finance. They hold the hand of the corporate treasurer. They conceive intricate financings for large projects. They advise nations how to borrow money from other bankers.

For a long period after the Second World War investment and merchant banks were protected from competition from commercial banks by custom or by law. Broadly speaking they did not chase each other's business. This no longer applies.

Service

As I suggested at the start, all forms of banks are today after fee income. The service invented by the merchant bank today becomes part of the commercial or universal bank's business tomorrow. Merchant banks developed the international bond market; today they have their work cut out to play a major part in it. Investment banks invented the syndicated loan; today commercial banks would rather syndicate their loans themselves.

The commercial and universal banks are themselves well equipped to provide financial advice. The development of the term loan during the 1930s depression in the U.S. forced banks to become expert in the industrial sectors to which they were lending. Today such in-house expertise is more widespread than ever.

The future for investment/merchant banks is assured only by the fact that in any great industry there is always opportunity and profit to be made by small groups of people with style, intelligence, imagination, and the right personal contacts.

There is nothing else to ensure that such banks have an ineradicable role in the business of finance.

Borrowers

CONTINUED FROM PREVIOUS PAGE

Another part of the world that has come under increasing scrutiny is Eastern Europe, where banks have become much more reserved since the deterioration in U.S.-Soviet relations following the crisis in Afghanistan and Iran.

Even so, Hungary was able to raise a $250m seven-year credit with a spread of ⅝ per cent over Libor or a split margin of ½-⅝ over prime earlier this year. Hungary is expected to borrow some $500m to $600m abroad this year, much less than the $1bn it raised in 1979. It should have little difficulty in carrying out this programme.

Poland by contrast is in a much more difficult position. Its total debt servicing requirement is put at about $8bn this year and it is in the early stages of negotiating a jumbo credit of about $500m from Western banks.

For the banks the problem with Poland is not only one of limits on lending to an East European country; they are also deeply sceptical of the information provided by the Polish Government. What they would like to see is more substance behind the figures, particularly where export targets are concerned. There is some doubt also about whether Poland really had managed by late April to arrange about three quarters of this year's external borrowing requirement which is put by the Poles at some $5bn.

At the same time Poland's debt service ratio is causing concern. It amounts to over 70 per cent of the projected hard currency income from export of goods and services.

In Western Europe a new borrower has emerged over the past year. Belgium raised a $1bn credit late last year and a further $1.2bn this spring. This strategy reflects the problems Belgium has faced in funding its budget deficit on the domestic capital market. If the market does not show some signs of improvement Belgium's total external borrowing requirement this year could be somewhere in the order of $2.5bn. The transactions completed so far show that it is a very highly-rated borrower, able to obtain funds at a split margin of ⅜-½.

Low margins are also the order of the day in Scandinavia where Finland set the pace in February with a $150m eight-year credit by its central bank. Terms were also ⅜-½ over Libor. This encouraged Denmark to go for a spread of only ½ per cent in its $250m credit arranged on a club basis under the co-ordination of Privatbanken. The terms were considered exceptionally fine in view of the country's economic problems.

Another large Scandinavian borrower, Sweden, has preferred to concentrate on the fixed rate makt to satisfy its needs so far this year. The amount raised in this way exceeds $1bn. The country's gross foreign borrowing requirements are put at some $7bn this year.

There have been signs of rising spreads in Southern Europe, particularly in the case of Spain where a spate of credits by utility companies caused spreads to leapfrog early in the year. Even so, the State railway concern Renfe was able to arrange a $160m eight-year credit through Germany's Westdeutsche Landesbank at a spread of ⅝ per cent throughout. This puts it on roughly the same footing as Greece, which chose the same margin for a $550m eightyear credit by its central bank. This compares with a margin of ½ per cent over ten years obtained by the same borrower last November.

In Asia, Korea resumed borrowing in February for the first time since the assassination of President Park Chung Hee. The loan was an eight-year $500m credit with a split margin of ⅝-⅞, terms which have set the pattern for subsequent borrowings. South Korea's indebtedness to commercial banks in mid-1979 amounted to some $9.4bn according to the Bank for International Settlements. The borrowing requirement for 1980 exceeds $2bn.

Linked

The Philippines, meanwhile, has been put off large-scale Euromarket borrowing in recent months by the high level of interest rates. Its Finance Minister, Mr. Cesar Virata, said in London last March that the country has only $300m more to raise in international markets this year.

A newcomer to the syndicated credit market is China, which raised a $300m five-year "club" credit through a group of Arab banks. The credit, signed in February, bears a margin of ½ per cent over Libor.

In Africa a number of recent deals have been noted for Nigeria. The operations are basically linked to projects and typical terms provide for a split margin of ⅞-1 per cent over an eight-year period. Elsewhere Zaire has recently rescheduled about $400m in uninsured syndicated credit from commercial banks. The conditions provided for a rescheduling over ten years at a split spread of ⅞-2 per cent. There is a five-year grace period.

Recovery of confidence

SHIPPING FINANCE

WILLIAM HALL

FINANCING shipping, "floating real estate," as American bankers like to call it, can be one of the most profitable banking operations around. It can also be one of the most risky, as many commercial bankers have found to their cost.

The world shipping industry is slowly emerging from its worst recession since the 1930s. No one has been able to estimate the cost to the financial community of this prolonged period of hardship. Several shipping companies have disappeared, others have been forced to sell off valuable assets to survive, and most have found their liquidity strained.

In the early 1970s many international banks set up specialist shipping finance departments. As the world's shipowners scrambled to order ships the banks obligingly provided much of the finance. Maturities were extended, spreads narrowed and traditional banking practices of requiring loans to be backed by the security of long term charters were often conveniently overloked. A tanker could pay for itself with two round trips to the Arabian Gulf, so who could lose?

When the shipping market collapsed, after the sharp rise i noil prices in the mid-1970s, bankers ran for cover. Interest payments on shipping loans started to dry up. Banks were forced to roll up interest payments into additional loans and some shipowners even defaulted.

Fortunately, most banks were nowhere near as heavily involved in shipping finance as they were in the property market. Most ships are built with the help of subsidised State shipyard credits; so the full brunt of the fall in ship values was felt by the various State credit agencies.

Even so, many banks got their fingers bhrnt on shipping loans and many shipping finance departments qliety stopped lending money for new ships.

Over the last year to 18 months, however, banks have begun to reappear in the shipping market. Some, such as Citibank, Chase Manhattan and National Westminster never stopped lending money for ships during the recession. But the nucleus of professional shipping bankers is once again being swelled by newcomers eager to find profitable new business.

The surge of interest in financing shipping is not hard to explain. With spreads in the euromarkets for prime credits still hovering below half a per cent above London interbank offerred rate (LIBOR), bankers can earn 1½ per cent above LIBOR on shipping loans. Maturities of seven years are no longer than those typically found in the euromarkets.

In addition, the shipping climate has recovered smartly, especially in the dry cargo markets.

In the Atlantic grain trades, for example, rates for 55,000 tonners sailing between the U.S. Gulf and Europe have risen from $12 per tonne to $19 per tonne over the last year. In the coal trades the improvement in rates has been even more impressive. The rate for the standard voyage between America's Hampton Roads and Japan has doubled over the last 12 months to $28 per tonne.

The upturn in dry cargo freight rates has had a tremendous impact on second hand ship values. In 1978, for example, five-year-old 50,000 dwt bulk carriers were changing hands at $4.5m and 10-year-old bulkers were being sold for $2.25m. Today, the current second-hand prices for five- and 10-year-old bulkers are $17m and $12m each.

The jump in second-hand values has swelled the security of shipping companies and meant that they are now in a position to gear up with bank finance and buy either new or second-hand vessels.

Depressed

At the moment the dry cargo markets are providing reasonable rates of return and shipowners should be able to put finance together without too much trouble.

But the picture is not so bright in the tanker market where rates for Very Large Crude Carriers (VLCCs) have been depressed for many months and look likely to remain depressed until the mid-1980s. The combination of a tremendous surplus in tonnage plus a downturn in demand for oil has meant that many of the world's super tankers are not breaking even at current freight rate levels.

Among the smaller sizes of tankers, such as the 80,000 tonners, the demand picture is much healthier. The considerable increase in oil trading because of the fragmentation of the oil markets has given much greater scope for smaller and more entrepreneurial operators, many of whom use the smaller tankers because they are more flexible.

It is against this background of a sharp improvement in both dry cargo freight rates and second-hand ship values that the world's bankers are being tempted back into the shipping finance market.

So far the upturn in the markets has not led to a speculative ordering binge and though there is still considerable over-capacity in the world's shipyards, bankers are hoping that the current climate will not spawn another shipping slump.

The sums of money involved in the shipping industry are huge. Oceanic Finance, a specialist ship financing company, recently estimated that $120bn was spent on new ships between 1970 and 1978 and an average $15bn per annum will be spent in the early 1980s.

On top of this sum, considerable amounts will be spent on second-hand ships. Lambert Brothers, Hill Samuel's shipbroking arm, recently estimated that just over $7bn was invested in second-hand tonnage in 1979. At a conservative estimate, at least $5bn per annum will have to be spent on second-hand ships during the early 1980s taking the total annual investment in ships to $20bn plus.

Ships are bulky investments. A second-hand VLCC, for example, costs close to $30m and a new 120,000 dwt bulk carrier costs $38m. Sophisticated liquified natural gas carriers cost even more.

Very few owners are financialy strong enough to buy ships outright and most of them have to rely heavily on bank finance.

With new ship orders, owners have recourse to very substantial amounts of cheap fixed rate finance—normally up to 80 per cent of the ship's value. The rest of the finance is usually provided by the shipowners themselves or by a euro-currency loan.

With second-hand ships the problem of finance is less straightforward. For a start there are no state shipbuilding credits and the finance has to be provided either by the ship-owner or the banks.

Given their recent experiences the latter are looking for considerable security and long term charters which should cover the interest and debt repayments during the life of the loan.

One of the main problems now facing shipowners is the shortage of fixed rate finance for second-hand ship purchase. High rates of inflation in places like America and the UK have made financiers wary of providing fixed rate debt.

Allowances

With new ships, the banks and other financial institutions are happy to offer leasing deals since they can take advantage of the tax allowances on new capital investment. However, such allowances are not available on second-hand ships.

In the past, a few shipping companies have managed to tap the eurobond market for fixed rate finance but this has been the exception rather than the rule. Most have had to rely on the banks for finance and there are grounds for believing that the strain is beginning to tell.

Considerable efforts are being made to find new sources of finance for shipping companies to supplement the traditional reliance on bank finance. Ships have lives of up to 20 years and ideally shipping companies would like to finance their vessels for similar periods.

The banks can provide funds for up to 10 and possibly 12 years at a pinch but even so this is not long enough for some shipping companies. One solution would be to attract the long-term pension funds and insurance companies into the field of shipping investment.

They already earmark substantial sums for property since it offers long-term capital appreciation and a similar sort or case could be argued for ships. With inflation running at double figures the newbuilding costs of ships are doubling every five years. Although the market is far from perfect, second-hand ship values should roughly keep pace with inflation.

Another solution to reduce the dependance on the commercial banks would be to set up specialist ship financing agencies similar to those found in Germany and Sweden.

Finally, private investors could be encouraged to invest in ships by altering the tax laws. In Scandinavia, for instance, individual investors have for a long time been important providers of capital for ships.

Total cost demands special terms

PROJECT FINANCE

JEFFREY BROWN

THERE IS a growing belief among bankers that demand for project finance is rising.

High interest rates and the recessionary forces gathering over the world economy are keeping the pace in check. But the trend remains upwards as the capital needs associated with new commercial investment continue to grow dramatically.

Merchant and investment bankers make no bones about the inflationary pressures. Economies of scale are increasing and technological change is rapid. But sheer cost has now risen to the point where many new investment undertakings are beyond the means of traditional direct financing.

Project finance is one of these conveniently broad labels which cover a wide field of financing services. One prominent U.S. investment bank sees it as financing which project sponsors choose to segregate from the assets and general purpose obligations of their business.

In other words, project finance steps in where conventional financing, through balance sheets and credit ratings, is made redundant by size and risk.

Sponsors

This is the purist's view, however. The term project finance tends to mean different things to different people, and there is a sizeable gulf between the extremes of definition. Some banks will apply the term to any large contract. Others are more precise, linking credit support with both sponsors and beneficiaries of a given project.

But whatever the definition the stakes are invariably high. Over the past decade any number of investment organisations have clambered aboard what has at times semed a considerable bandwagon. Single project loan requirements often extend into the billions of pounds price range and competition for a slice of the action is fierce.

The major competing forces in terms of banks form three fairly neat camps, international commercial banks, merchant banks and investment banks which are mostly American.

The international commercial banks tend to be the quickest off the mark. Their integrated world-wide branch networks and vast armies of agents in the field allow them a head start when it comes to learning of potential business and leveloping lines of communication.

Only a handful of U.S. commercial banks and a similar number of European institutions have shown an ability to render fully fledged project finance services. But once a project has been structured the bank involved in the initial "financial engineering" can take its choice of commercial banks prepared to put up loans in a variety of currencies.

The merchant banks, like the investment banks, have had to focus their efforts on a more specialised project finance service in order to compete effectively with the commercial banks. Without the financial backing to act as leaders, the merchant banks are having to develop more fully their role as advisers and agents.

The merchant banks in the UK have carved out a niche for themselves in the area of export credits, thanks partly to their links with an active state-backed export-credit guarantee organisation, the ECGD. More recently they have begun to move into international export credit bidding, taking strength from their historic presence and strong links with Commonwealth nations.

But perhaps the most specialised of all operators are the U.S. investment banks which in recent years have concentrated their efforts more closely on joint ventures capable of being at least partly financed through the U.S. capital markets. Many have developed into specific areas, notably mining, iron and steel, oil ond gas and other energy related industries which have come to rely heavily on project type financing.

There are a number of other institutions in the field. Some construction and engineering companies offer a project finance service, largely as an adjunct to selling their basic engineering services. Some consortium banks are taking a hard look at project finance. And a number of multilateral agencies have shown signs of exploring ways of packaging their financial involvement in this way.

Among the major U.S. investment banks, First Boston was one of the first in the field. Its Project Finance Group, which claims to be the largest and most experienced in the investment banking industry, is currently engaged in projects which have aggregate capital requirements of more than $20bn.

The bank starts with a feasibility study to determine the viability of the project. A financial analysis of the concerns of potential lenders is run through a computer model.

First Boston advises both public and private sector sponsors. To satisfy diverse legal, tax and accounting considerations it has to be careful in its choice of forms of partnership if it is to preserve an efficient flow of financing. At First Boston this matching of demand with supply is helped by its links with affiliate bank, Credit Suisse First Boston.

The financing plan will include interim or construction period financing as well as permanent financing. There will also be provision for financing unexpected costs or any future expansion that the project may plan.

Multinational Corporations and their needs

Aiming to optimise customer service

INTERNATIONAL BANKS

ROBERT COTTERELL

IF THE treasurers of multinational corporations are not exactly laughing all the way to the bank, at least part of the reason may be that the banks are more willing to come to them.

International corporate banking is a competitive business, the more so with the increasing sophistication of corporate treasurers over the last decade, who can determine their banking requirements and then see anything from three to a dozen major banks competing to provide the service.

Few multinationsl choose a bank for sentimental reasons.

"There is no cosy relationship with any one bank nowdays," says National Westminster Bank international division general manager Mr. F. G. Bennie. "There is no reason why we should suppose that because we have an historic relationship that business should come our way."

Elegant

Bank marketing is a fine and aggressive art. Few annual reports contain so elegant an element of hard sell in the review of the year's activities as those of the international banks.

The implication should not be seen as pejorative: the banks have proved themselves willing and capable in adapting their structures to optimise customer service.

But the name of the game is foresight: to anticipate areas in which actual or potential clients will need finance, and what kind they are likely to choose: to follow industrial trends at a more fundamental level, and allocate resources appropiratel and to offer an organisational structure which interlocks attractively with the corporate client's image of its own developing structure.

Perhaps the major trend in the structure of international corporate banking over the last 10 years, recognised to have been developed by the major American banks, has been to rationalise relationships with clients. Instead of a "girl in every port" system, where the needs of a multinational corporation are met in different countries by separate regional units of the same bank, the trend has been for banks to establish account-executive teams assigned to identified clients, who mediate all contact and co-ordinate all services.

Such a system was adopted last year by U.S.-based Bankers Trust. It established a world corporate department "to enhance the bank's ability to serve multinational corporations on a global basis. A Trust spokesman said: "Formerly, the customer was visited by several different people with different specialities, which could be a bit wasteful of thec ustomer's time."

Under the new system, the bank's relationship with the multinational corporation is the responsibilty of a "relationship manager" headquartered alongside the client.

Account officers are attached to major client operating units, reporting back to the relationship manager.

"We try to take a look at where decisions are made in the customer grouping, and devolve our responsibilities to what the customer's needs are," says the spokesman.

In the case of, say, the Ford Motor Corporation, a relationship manager would be in the U.S. But with major European decisions made in the UK, the London account officer would have a proportionately high share of responsibility, under the supervision of the raltionship manager.

One of t hemost sophisticated self-analysers among international banks is Citicorp.

Its world corporation group was established in 1973, to give corporations a "global perspective in financial servicing." Hhis year sees a further reorganisation involving what it calls "core business consolidation." Here, the interesting trend is towards a re-integration of corporate services.

"As previously organised, Citicorp served a particular corporate client through one banking unit until that company matured to a certain size, or added overseas operations, or divested its foreign subsidiaries, or otherwise re-structured itself.

"At that point our client might be reassigned to a different banking unit where it more closely fits our compartmental structure. Despite our efforts to maintain continuity or service during such reassignments, some inconveniences occurred," says the bank.

What were formerly Citicorp's world corporation group, international banking group, and national banking group has been integrated into the institutional banking division, which will "serve all corporate customers on a sonsolidated basis" in the 1980s.

Globalisation has been accepted to a varying degree by the international arms of the British clearers, with a pragmatic approach and a recognition that much of the banking expertise and authority remains centred in London.

Interestingly, though, Barclays is considering substantial restructuring of its international corporate banking operations. The bank is not discussing the possible outcome, but it seems a reasonable surmise that one likely road would be for Barclays to formalise a globally-orientated structure. The first fruits of current discussions could be seen by the summer.

Midland Bank said: "We look first at the structure of the multinational, and how centralised, with all the decisions taken in New York, we may ultimately decide that the account executiv eshould be in New York," says Mr. David Hanson, regional director at the Midland's international division.

Lloyds Bank International is based on "geographical divisions with service departments, outstandingly the merchant banking division.

"We have a well developed internal information system, and executives responsible for major identified customers. The account officers co-ordinate the business of the bank worldwide with a view to avoiding conflicts of interest," says an LBI spokesman.

A third organising principle, beyond regional and global stratification, is taking root in the shape of industry-related units. The growth of the offshore oil industry helped to develop this approach, with the banks needing specialised knowledge where limited recourse financing was sought for speculative but potentially highly lucrative projects.

The Midland has teams specialising in oil and energy, aerospace, and shipping finance. Chase Manhattan is building up its specialist teams to cover ultimately about a dozen industries. But industry structuring is likely to be valuable in only a few, relatively specialised areas, such as those already chosen by the Midland, argues Mr. Hanson.

"I haven't yet seen the need for specialist expertise in all industries. You shouldn't have to get immersed in the running of a business to understand it" he says.

It remains to be seen whether, with the ability of corporate treasurers to play off one bank against another, and switch on a daily or even hourly basis, banks will have to become known for a particular "job" or a particular industry, where one will have a dominant position while at the same time seeing other areas of its services eroded.

This is "department store banking, where everybody seeks to provide anything and everything must reach a point where certain departments are not serving any purpose either in the general relationship or on the bottom line, and you may as well close it down. The banks will probably do that," says one English clearer.

The Midland takes a more bullish view. "The cake's pretty large," says international division assistant general manager, Mr. J. Christopher Wathen.

The area of service development now occupying both banks and corporate treasurers is that of speedier international cash management. With interest rates recently at historic highs, minds are concentrated even more strongly on getting money in and out of the right place quickly.

While both sides see the value of cash management, there is a feeling in London at least that in credit matters banks have recently begun to hold their own once more against corporate demands for longer loans on ever-finer rates.

Loan maturities have in the lats few years crept forward from a typical maximum of seven towards ten and 12 years.

After the winter months, months of political upheaval, the banks are rolling back loan maturities, while at the same time demonstrating an increasing reluctance to grant to subsidiaries of multi-national companies the kinds of fine terms which the parent company might expect.

Car giant able to call the tune

VOLKSWAGEN

KEVIN DONE

"THE COMPETITION to lend money to us is deadly," says Herr Günther Borchert, the man responsible for maintaining the myriad banking relationships around the world that are vital to the daily business life of Volkswagen, West Germany's largest car manufacturer.

As one of the Federal Republic's leading blue chip companies, VW can afford to be choosy in selecting its banking partners, and the problem facing most banks is how best to stand out from the pack in order to obtain a slice of the car giant's business.

Such is the strength of the VW balance sheet that in some respects it looks more like a bank than a manufacturing company.

The balance sheet includes an item listing more than DM 4.6bn loaned by VW to the banks and VW's interest earnings have become a significant contributor to the group's overall profitability.

Last year, no doubt to the frustration of the banking community, VW financed a massive investment programme of some DM 3.1bn—up from DM 1.9bn in 1978—almost exclusively from its own resources. As much as 97 per cent of the expenditure was covered by the group's cashflow.

This is a huge advantage for Volkswagen at a time when interest rates are so high that they prevent some companies from raising long-term finance, says Professor Friedrich Thomée, the company's finance director.

Strength

The strength of VW's financial resources clearly goes a long way in dictating its relationships with its bankers, and Herr Borchert, himself a former banker, admits that he is a little concerned at the way some banks will cut their rates to the finest margins to win VW business.

The nature of some of the services VW demands of its bankers has changed radically in the last five years as the company has recovered from its traumatic experiences in the early 1970s.

"In 1973-74 I needed money from people, but now I must have banks where I can deposit," he says. "You can borrow from anyone, but you must look at the quality before you give someone money. I want to sleep peacefully and I need to be 100 per cent sure that I can get the money back."

In general Volkswagen does not concentrate its banking contacts on one or two "house banks," but is open to any offer of services, basing its decisions on the conditions.

For the mass of its regular daily business, however, VW clearly has a set of much more fixed relationships reflecting the investments its banks must make to meet the production demands. It uses local banks for the mass of daily payments, cash business, documents and wages payments to the workforce.

With its major German works at Wolfsburg in Lower Saxony, only a few miles from the border with East Germany, VW inevitably has particularly close links with the local and regional banks in North-East Germany. The company has 15 account connections for this regular daily business, but only about 8 eight play any important role.

For a concern with annual sales of more than DM 30bn and a world-wide workforce of around 240,000, the sheer volume of daily money transactions is impressive, ranging from DM 0.5bn to DM 2bn every day in the D-Mark area alone.

VW also works with many foreign banks which have branches in the Federal Republic and makes no fundamental distinction between domestic and foreign partners. It does try to follow regional priorities, but says it depends on the conditions.

On the international front VW is in the middle of an ambitious overseas expansion programme centred on important acquisitions in South America, plans for a second plant in the U.S. and the entirely new field of office computer technology.

Domestic

The group's financial policy is steered from the centre in Wolfsburg, "but within the realm of possibilities we try to have our bank activities in the place where we have our business, in other words with domestic banks," says Herr Borchert.

VW will resort to other markets only when finance is not available locally.

Foreign subsidiaries are supposed to use local banking services even where these are more expensive, because the company argues that any move into the international money markets carries heavy exchange risks.

In Brazil, VW's use of local banks is also a way of helping local dealers in their own banking relationships.

Major foreign investment decisions are made in Wolfsburg, and in 1977 VW founded Volkswagen International N.V. Amsterdam and Volkswagen Overseas Finance in Curacao the Dutch Antilles to add flexibility in the financing and holding of share interests in other foreign companies.

Such are VW's meagre outside financing needs that its last resort to the bond market was three years ago with a $150m issue managed by Deutsche Bank, Schweizerische Bankgesellschaft and the Union Bank of Switzerland.

Despite the rapid expansion of the German banks overseas in the last decade Volkswagen still favours local banks in foreign markets, although Ger-

All cash controlled from London

IMPERIAL CHEMICAL INDUSTRIES

ROBERT COTTERELL

"I DON'T think three hundred or so banks is excessive. If we wanted, it could be three, four, five times that number."

The financial web spreads widely from the London Millbank office of Mr. Cyril Crowe, treasurer of Britain's Imperial Chemical Industries (ICI). Those three hundred banks with which the group regularly deals were involved last year in the handling of £385m of liquid assets and £246m of short-term borrowings, with group loans totalling £1,145bn.

"Our cash resources are centralised. The group is organised from here," says Mr. Crowe. "In Australia and Canada [where ICI has large quoted subsidiaries] there is considerably greater day-to-day independence than for somebody in Rome or Paris. We supervise banking relationships. Companies aren't going to open and close accounts without our agreement.

"Operating units do not hold cash, all the cash is centralised. They sell the goods, we collect the money. They want raw materials, we pay for them. They have a bank account for local wages. The UK is very tight, nd other parts are pretty tight. If in France or Germany they want to change banks, they can't do that without our agreement. We take into account overall relationships. Banking and finance are the responsibility of myself nd my team here. It's not open to operating units in general to set up relationships."

Mr. Crowe oversees a team which makes policy decisions about optimal credit and deposit needs, and an in-house dealing room which implements day-to-day cash management. "We operate as does a deling room within a bank, but on a smaller scale," says assistant treasurer Mr. David Nash. "We get quotes for foreign exchange, overdrafts, banking credits, and bills," says Mr. Crowe.

ICI's borrowings are likely to increase this year, says Mr. Crowe. "There is a choice how far the group borrows longer term, and how far it runs down cash. In the last two or three years the banks have tended to lend for longer, and we've take nadvantage of it to establish long-term financing separate from the bond market. They're willing to commit themselves to seven to ten yers, when in the past they would have said five to seven.

Syndicate

"If we borrow on floating rate, we go to several banks to see what sort of spread there is. If we decided for our various reasons that we'll meet requirements by borrowing from a bank on a ten-year floating rate, then we invite the banks to quote, and choose on a competitive basis just like quoting for forex. On a public issue bond, we appoint a syndicate. We use leads for the type of market. In Switzerland, we use the big three in rotation. On Germany there are three we rotate."

There is no shortage of banks for ICI's custom. "It is such a competitive market. There are certainly far too many banks," says Mr. Nash. "The problem with ICI is not to be over-banked. We try to maintain the right level, and we do not feel consciously over-banked."

Its high level of in-house expertise gives ICI something of an arm's length relationship with its bankers in non-credit matters. "We're reluctant to hand over responsibility for our affairs to any outside organisation," says Mr. Crowe. "We never ask for advice in terms of economic predictions. Nobody here would dream of ringing up for an economic forecast for 1983. We have our economic department. A lot of banks send us things. Quite a few send us survey data that we read, some good, some not. But we don't ask advice from them. It's not ICI's policy to pay for advice from banks. We expect good service."

When exchange controls were lifted, says Mr. Crowe, "We were aware of the possibilities of what we could do, so I don't think the banks could have guided us at all. There was not a lot to contribute. We have people whose job it is to do those things, we're not like the small trader doing business but not looking at the financial aspects. I don't think the bankers would think they could tell us much in that area. We were aware of exchange controls, and I can't think of one aspect where a bank said 'Have you thought of this?'"

Where banks assign to a company account staff skilled in the particular industry, they do so because "it's convenient to them," argues Mr. Crowe. "They'll say: 'We hear you're doing so-and-so. Do you need money? Some help?' Except in one or two special cases, we would not reckon on them having a really detailed knowledge of the industry. We don't mind whether those chaps are there or not. They do it for their own protection. They want to know what the true economic risk is on a project. But we don't have any limited recourse financing."

"If you take an overseas country," says Mr. Crowe, "usually in the first place we use a locally established bank to handle most of our ordinary trading transactions. That doesn't rule out the overseas branches of U.S. and UK banks."

In the main, local banks overseas provide "local currency financing," says Mr. Nash. "For loan finance, we'd usually need to turn to international banks. ICI as a multinational expects to have links with the major multinational banks, whether they are British, American, Continental or anyone. They are no less multinational than we are."

The build-up of American banks in London over the last 10 to 15 years "brought more of a selling approach to the business at one stage. They were more aggressive for a while, but I wouldn't like to say that they left the UK banks behind," says Mr. Crowe. "I wouldn't say they were sharper, but some made a determined effort to get a position in Britain. The Americans came partly for the Euromarkets, and partly for American companies with UK subsidiaries. And they're out to get connections with British customers, as are UK banks in the U.S."

Commercial paper wins

PHILIP MORRIS

STEWART FLEMING

AFTER A cursory glance through the annual report of the giant consumer products corporation Philip Morris it would be hard to resist the conclusion that the company is the sort of client commercial bankers dream about.

One of the fastest growing amongst the largest U.S. corporations, Philip Morris has seen its sales revenues surge from $1.1bn in 1969 to $8.3bn last year.

More important from a bankers point of view this growth has been accompanied by a dramatic increase in the company's needs for short-term credit. This stems in part from the nature of its businesses, particularly the most rapidly growing segments of its diversified operations.

The bulk of its business remains tobacco, which last year accounted for 64 per cent of sales revenues and 82 per cent of total operating profits, which hit $1.15bn in 1979.

The growth of its tobacco operations has been underpinned by its phenomenally successful "Marlboro" brand. This growth has, however, resulted in heavy reliance on short-term debt to finance stocks of leaf tobacco.

Its other businesses, including the Miller Brewing division, are also heavy users of short-term credit. Indeed, in an address to a banking conference in Richmond, Virginia, in March, Mr. F. Harrison Poole, the company's Treasurer, estimated that Philip Morris's short-term credit requirements, which fluctuate widely according to seasonal influences, could peak at between $800-900m.

Here then, you might imagine, are many of the ingredients which would make Philip Morris a highly attractive lending proposition for bankers.

A large and secure multinational company, growing rapidly and with heavy short-term financing demands of a kind which do not lend themselves automatically to funding in the long term bond markets.

The reality is rather different because the company chooses not to depend on banks for short term finance. As Mr. Poole points out: "About the only way we borrow is from the commercial paper market."

Philip Morris is one of the dozens of large U.S. companies which over the past decade have steadily cut back on their borrowings from commercial banks at the bank's prime lending rate and instead funded themselves in the rapidly expanding U.S. commercial paper market, where companies and financial institutions such as insurance and pension funds, lend directly to each other.

In 1975 commercial paper outstanding totalled $48m. By February of this year it had reached $116bn and a growing proportion of this credit outstanding was to non-financial companies like Philip Morris which have been finding it cheaper to raise money in the commercial paper market than from their bankers.

Indeed, as the prime lending rate at commercial banks surged to a new record of 20 per cent in the past few months, major companies were still able to get funds in the paper market at around 16 per cent.

Mr. Poole points out, for example, that last year about 98 per cent of his company's short-term debt was funded in the commercial paper market, which he estimates saved the company $14.6m in interest expense compared with borrowing from banks.

The heavy use of non-bank short-term finance does not mean that the company has tenuous links with its bankers.

Its commercial paper must be backed up with the customary bank loan commitments, which help to reassure investors in the commercial paper market about the market's underlying stability.

Philip Morris has some 78 line banks providing back-up lines in return for commitment fees, of whom 14 are now major foreign banks.

Mr. Poole says it is important to the company that the banks feel their relationship with the company is profitable to them and that the banks are properly compensated for the back-up facilities they provide.

The importance of their banking relationship was illustrated in 1978 when Philip Morris turned to its banks for temporary bridge finance for its $500m acquisition of soft drinks producer Seven-Up.

But providing commercial paper back-up lines of credit in return for commitment fees of a meagre one half a percentage point is clearly a much less rewarding business to the banks than lending millions of dollars of short-term credit to a major company.

Philip Morris's bankers do of course provide other operating services for such things as payrolls, cash management and helping with foreign exchange exposure management, although as Mr. Poole points out the Treasurers Group within Philip Morris plays the primary role in this area of the complex tax, legal and accounting issues involved.

WORLD BANKING XI

The remaining pages of this part of the survey carry articles on the experience of the banking systems of the major industrialised countries of the Western world.

Radical effect of new Act

UNITED STATES

STEWART FLEMING

ACCELERATING inflation over the past three years has pitched the U.S. banking system into a period of rapid change unprecedented since the aftermath of the Great Depression.

It has fostered the growth of competitive institutions, ranging from the commercial paper market to money market mutual funds, which have mounted an intensifying challenge to the banks for lending business as well as for deposits. It has provoked the Federal Reserve Board, the central bank, into increasingly strenuous attempts to curb monetary growth in an effort to bring inflation under some control, efforts which helped drive up the rate of interest banks charge their best customers to a record 20 per cent in March.

After three years of fruitless debate in Congress inflation was one of the main forces which finally helped force a political coalition dedicated to reforming increasingly anachronistic banking regulations.

That coalition achieved its objective in March when President Carter signed the Monetary Control and Re-regulation Act, which has been described as the most far reaching reform of the U.S. financial system of the past 50 years.

With the important exception of laws which limit commercial banks to operating in a single State, the legislation addressed most of the major regulatory issues, which have been thrown into sharper and sharper focus by accelerating inflation.

A fundamental one was the threat to the status of the central bank itself. The Federal Reserve System had been steadily losing banks from its voluntary membership as they increasingly baulked at the mounting cost of keeping non-interest bearing reserves with the central bank. By requiring all financial institutions—thrift institutions such as savings and loan associations; mutual savings banks which finance private house purchases; and the 15,000 commercial banks, to keep reserves with the central bank against transaction accounts the legislation has removed the incentive to quit the reserve system and underpinned the status of the central bank and the influence of its monetary policy.

Threat

Beyond tackling this specific and threatening problem, the Act promises to shift the competitive balance between different types of financial institution with the declared objective of seeking to equalise competition by removing distorting regulations.

It is proposed, for example, to remove over a period of six years the regulation, which establishes ceiling on the rate of interest which can be charged on deposit accounts.

This change should result in individual bank and saving institution depositors being paid a fairer rate of nterest for their funds. Bu it will also help the banks and thrift institutions to compete more effectively with such rivals as the bond markets or money market mutual funds for savings deposits.

In return for the elimination of their privilege of being allowed to pay savers ¼ per cent more than banks on savings deposits the thrift institutions, whose assets total around \$740bn compared with over \$1,300bn for the commercial banks, are to be allowed to invest up to 20 per cent of their assets in such things as consumer loans and offer what amount to cheque accounts.

It is also hoped that the assets side of the savings institution balance sheet, which has suffered from a preponderance of fixed interest long-term loans, will be strengthened by a new regulation of the Federal Home Loan Bank board which will facilitate increased variable rate lending.

The relative absence of this facility means that in 1980 many savings institutions will suffer heavy losses and some will probably fail because the day-to-day cost of their money has risen above the fixed rate on the bulk of their loans.

The legislation has also tackled a similar problem for commercial banks. In many States laws limit the rate of interest banks can charge on loans, particularly consumer and mortgage loans, and in some states even business loans. This has resulted in losses to ome banks as money costs in the past six months have risen above usary ceilings.

Whatever the longer term implications of the new legislation (and there may be more to follow if the three main bank regulatory agencies succeed in persuading Congress to approve new laws to ease the rescue of troubled financial institutions), it is clear that in the short term the U.S. banking system is facing some rather different, but no less formidable challenges.

The Federal Reserve System's anti-inflation measures, including both the rise in short term interest rates to undreamt of peaks and the "voluntary" 6-9 per cent limit it has put on credit growth for the banks, are destined to make banking a difficult business over the next year.

It is becoming more and more likely that the U.S. economy will tip into recession and some banks are already beginning to increase loan loss reserves in anticipation of problems among some of their customers. The rise in interest rates at the short end of the market has made it more difficult for banks to manage their liabilities.

This is one of the factors which has contributed to a weakening in bank profit growth in the past six months. Further weakness may lie ahead if lending growth is constrained by Fed policy and that would put bank capital-to-asset ratios, already at historically low levels, under further pressures.

A big question marke hangs over this area, however. If, as money market economists maintain, many companies no longer have access to the long term bond markets because of lenders' fears about the uncertain inflation outlook, it is possible that banks could be faced with burgeoning demands for credit from corporate customers which will bring them into direct conflict with Fed policy.

There are fears too that if the U.S. banks do bend evehy effort to meet Fed guidelines the foreign banks, which have already carved out some 10 per cent of the U.S. banking market, will be able to increase their penetration now concentrated in New York and Illinois. The Fed has written to foreign central banks seeking assurances that they will restrain their banks from taking advantage of U.S. policy.

The foreign banks have, however, been put on a more equal footing with their U.S. rivals, assuming the Fed's new credit restraint programme works equitably.

AMERICA'S LEADING BANKS—(end-year position)

	Total assets (\$bn) 1979	Total assets (\$bn) 1978	Net income (\$m) 1979	Net income (\$m) 1978
Bank of America	108.4	94.9	600.2	514.2
Citicorp	106.4	88.2	544.0	482.0
Chase Manhattan	64.7	61.2	311.2	197.2
Manufacturers Hanover	47.7	40.6	211.3	181.7
J. P. Morgan	43.5	38.5	288.1	257.3

Wary eye on foreign challenge

UNITED KINGDOM

MICHAEL LAFFERTY

DESPITE ITS reputation for being the banking capital of the world, the City of London often seems very much the preserve of the traditional British banking institutions.

At the top of the pile in sheer size, if not in excitement, are the private commercial banks: Barclays, Lloyds, Midland and National Westminster.

Size is less important in the field of merchant banking, where some of the best banking brains in the City are concentrated in a handful of names like Warburgs, Morgan Grenfell, Schroders and Kleinwort Benson. These banks are among the principal members of the Accepting Houses Committee, a long-standing City club.

A third group of banks is the discount houses, the highly specialist intermediaries between the authorities and the banking system, whose whole business is based on discounting bills of exchange.

Overseeing everybody, including foreign banks and all institutions designated as deposit-takers, is the Bank of England, the central bank.

Not so lon gago the commercial banks, known in the City as the clearers because of their membership of the London clearing house, were simple short-term lending institutions and deposit-takers. This has changed over the past few decades as the clearers have become involved in medium-term lending to British industry, and have diversified their activities in a multitude of financial services.

Apart from the traditional finance houses, the largest of which are clearing bank-owned, the clearers are now involved in leasing, factoring, merchant banking, and an increasing range of personal financial services. They dominate the personal banking market, but have lost almost a third of lending to British manufacturing industry to the foreign banks, mainly the big U.S. banks.

In retail banking there is no significant equivalent to the German savings banks. The Trustee Savings Banks, about 18 in number, have only recently been allowed to move away from collecting deposits for the Treasury, while the building societies—though now the dominant collectors of personal savings—have yet to venture into banking services.

Because of their vast size, the London clearers are rarely out of the news. Over the past year they have had far more Press attention than they would like because of an unprecedented profits bonanza: increases were reported of between 70 and 90 per cent in domestic pre-tax profits.

Almost all of this was the result of the Government's high interest rate policy. So while the clearers were not having to pay anything extra for balances left interest-free on current account, they were able to charge customers rates in excess of 20 per cent.

The profit figures have opened up many of the old debates about the UK banking system. Even the Conservative Government was forced to concede that some form of special taxation might be appropriate for the clearers, though none has yet been announced.

The Bank of England, acting in its non-Central Bank role as protector of the participants in the banking system, has argued that the extra windfall profits are needed to maintain the capital adequacy of the banks.

The debate over the clearers' profits has developed into a discussion about their efficiency. On the one hand, the profitability of the banks is generally said to be among the best in the world—even in bad times. On the other, the esteem in which clearing bankers are held in the City is not the highest.

Allied to this is the fact that the British banks have lost such a large share of their domestic industry lending to foreign banks, while they have left the personal sector little more than half banked.

The question that is now being asked is whether the clearers are so comfortably placed that they cannot help making money, with the result that they have little incentive to tackle new markets.

Blessed

The London clearers are certainly blessed in having a customer base which insists on going on leaving large interest-free balance on current account. The same is not true in Scotland, where bank customers make far more use of deposit account. On the other hand the centre-piece of their service —and there is iltle difference from on bank to the next—is the current account.

So if people want to enjoy normal banking services they either borrow money at a margin of 3 to 5 per cent over bank base rate, or else leave at least sufficient funds on current account to make sure that they never go into the red.

One of the London clearers, Midland, has recently indicated that it is considering paying interest on current account. Doing so would involve a considerable shift in the pricing structure for bank services, and might well involve a major shift in the policy of cross-subsidisation which all the clearers have applied up to now.

Such a move is much more likely to be used as a marketing strategy, and there is plenty of opportunity for marketing personal bank services in Britain. The fact that at the very most only 60 per cent of the adult population has a bank current account means that there is still a vast population of around 11m people to tap.

This opportunity has not escaped the notice of foreign banks. Over the past year both Citibank and Bank of America have indicated new plans to expand in the UK retail banking market.

B of A is starting off on the deposit side, by offering higher rates on term deposits than the clearers, but Citibank would like to convert its UK finance house into a fully fledged personal bank with current account facilities. Its biggest problem could be acquiring suitable premises.

The clearers are watching Citibank's every move. They know it is one of the best retail banking operations in the world, and that its plans have worked already in Europe.

Another issue on which there have been further developments over the past year is disclosure of bank accounts.

This year for the first time the London clearers provided shareholders and the public with some useful figures on their bad debt experience and provisions. As many critics had blieved, it emerged that the banks were setting up far higher provisions than their loss experience seemed to justify.

Prudential control, and the extent to which the Bank of England should interfere in bank management, is rapidly becoming a major issue in British banking.

Under the 1979 Banking Act, which is still being gradually implemented, the Bank has responsibility for licensing and supervising both banks and other deposit-taking institutions. So far it has handed out recognised bank status to the clearers, the accepting houses, the discount houses and all leading foreign banks. But at the time of writing there is still a large rump of names to be dealt with.

At the same time the Bank has been introducing the banks to a new prudential regime, with discussion papers on capital adequacy, foreign exchange exposure and liquidity.

The first caused little stir, the second angered the banks, but their ruffled feathers were smoothed when the Bank promised to use the paper's proposals as guidelines rather than limits. The third has sent the banking community as a whole into a rage.

Accusations of heavy-handedness, lack of experience, and threats of confrontation have been uttered by bankers. But the likelihood is that everything will be sorted out over tea and biscuits at the Bank. As one banker said recently: "The English language is remarkably flexible."

Intense competition in all sectors

WEST GERMANY

KEVIN DONE

IN THE range and density of banking services offered West Germany has few rivals around the world. Leading bankers are not averse to suggesting that the Federal Republic is "overbanker," a reflection that is especially likely to be voiced now when the banks have just gone through a very difficult banking year and are enduring another, which shows little prospect of showing much improvement.

With a population of fewer than 62m the Federal Republic plays host to more than 5,000 banks, which maintain nearly 40,000 branches. Taken together these institutions had a business volume of more than DM 2000bn £486bn) at the end of 1979 and competition is intense, not only between individual banks, but also between different groups of banks.

The German banking system differs from its Anglo-Saxon counterparts in that it allows "universal" or multipurpose banks, which not only carry out the credit, deposit and payment transaction business, but also conduct investment banking and deal with securities.

In effect this means that under the same roof one bank not only grants credits and takes deposits it also advises on shares and launches new issues, while helping to steer the policies of companies to which it has lent funds and about which its customers seek investment advice.

In terms of importance it is often wrongly assumed that the big three commercial banks, Deutsche, Dresdner and Commerzbank have a controlling influence in the West German banking sector.

Powerful they certainly are—on a world scale they ranked respectively 4th, 9th and 20th in the Banker magazine's 1979 listing of the top banks around the world—but these three have far from the dominating presence of, for example, the four big clearing banks in the UK.

Deutsche Bank, the biggest of the German banks, reckons it has no more than 8 per cent of the retail banking market and only 4 per cent in deposit-taking. The other two big banks taken together would be doing little more than the same again.

Taken as a block the public credit institutions—the savings banks and their clearing houses—have about 50 per cent of the business volume of all commercial banks, while the private commercial banks, headed by Deutsche, Dresdner and Commerzbank have more than 30 per cent. The balance of rather less than 20 per cent is in the hands of the urban and agricultural credit co-operatives and their clearing houses.

Despite the density of the present German banking network, a process of rationalisation and consolidation has been going on steadily over the last couple of decades.

At the end of the 1950s there were more than 13,000 banks operating in West Germany with something over 30,000 branches. The number of branches has grown strongly to around 40,000, but the number of banks has fallen back to rather more than 5,000 as a result of closures, mergers and takeovers.

Powerful new influences have emerged on a national basis in the form of the biggest regionally based banks, such as the Bayerische Vereinsbank, which has grown well beyond its original boundaries of Bavaria in a series of takeovers of small banks in different parts of the country.

At the same time a growing number of foreign banks have entered the West German banking scene, although none have found it easy to establish a presence.

Nerve centre

Foreign banks have managed to achieve only a very small share of the West German banking market so far, and there are no signs that this state of affairs is likely to change in the near future.

Foreign institutions are represented in Germany in large numbers — Frankfurt, the Federal Republic's financial nerve centre, plays host to 174 international banks, more than any other city in continental Europe—but this is hardly reflected in the volume of their business.

The main focus of foreign bankers' problems in West Germany is the nature of the universal system, which has meant that extraordinarily close ties have built up between the big domestic banks and industrial companies.

These links range from the large direct equity stakes and proxy voting rights to all-round banking services and supervisory board appointments. Ideas of arms-length banking relationships fit uneasily into this sort of scheme and the advantages that companies can enjoy from their close relationship with their German bankers underlined by recent rescue cases such as AEG-Telefunken and DDG Hansa.

In both cases the companies have been rescued by massive support from their bankers, but there has been a sharp reluctance on the part of many foreign banks to become involved. For the major German banks the AEG-Telefunken rescue became something of a test of their virility and of the whole private enterprise system as it is practised in the Federal Republic.

Ironically the very strengths of the German universal banking system which make its individual institutions so formidable, have also been the source of considerable unease in some quarters. The attack has centred on two questions. Have the banks become too powerful and has the universal system eroded true competition? Following the dramatic collapse of the Herstatt Bank in 1974 a commission was set up under Professor Ernst Gessler to examine the banking system and to determine whether conflicts of interest exist.

The questions at stake were whether the German banks exercised too much power through their industrial shareholdings, whether senior bankers held too many seats on companies' supervisory boards, whether the banks used their access to proxy votes to their own advantage, and whether the banks were using their foreign subsidiaries as a loophole to avoid legal limits on the amount of credit that they could grant.

In the event the commission took a fairly relaxed view of most of these issues believing that the banks fundamentally would honour their social responsibilities. The commission recommended greater disclosure of bank's voting practices and suggested that banks' equity holdings should be no more than 25 per cent plus one share—a minority of the commission would like a limit of 10 per cent—but it hardly sought fundamental changes.

Any alterations in banking law will in any case have to await the outcome of the autumn general election and even after that date alterations are unlikely to reach the statute books for a couple of years at least.

Whatever discussion is fuelled on the structure of the banking system, it is unlikely to be fuelled this year, at least, by the size of the profits the banks are making. Faced by a determined tight monetary policy from the Bundesbank, the West German central bank, the commercial banks have found their interest margins uncomfortably squeezed.

In order to pay an unchanged dividend it had to forego making any payment into its open reserves. Other lead banks also fared badly and in some cases saw their earnings sustained by unpredictable factors such as earnings on gold transactions.

Despite occasional boom years during the 1970s, the banks have in fact suffered some fall in their overall profitability.

Despite some success in holding down administrative costs, the banks have seen a decline in the net interest and the net commissions they have received as a percentage of business volme. The overall growth of business volume in the 1970s has certainly been impressive, but this judgment alone on the health of West Germany banking institutions could tend to be misleading.

The banks have been critical of some of the tactical moves of the Bundesbank—especially that it allowed its key interest rates to fall out of line with the money market rates—but in general the banking community has supported the need for a restrictive policy lead from the central bank.

Constitution

The Bundesbank, at the apex of the German banking system, is arguably the most independent of the world's major central banks, with its overriding duty of protecting the value of the currency written into its constitution by law.

The Act which set up the Bundesbank states that it is called on to support the Government's general economic policy as long as, and to the extent that, this support is consistent with its first duty of safeguarding the currency.

For most of the last decade the Bundesbank was able to meet its foremost duty with apparently little effort because the Deutsche Mark did little but rise and rise.

For the first time since the mid-1960s, however, it is now having to live by a new set of financial rules to take into consideration the fact that the country has plunged into deficit on its current account and that this year the deficit would reach more than DM 20bn, the largest deficit of any of the industrialised countries.

Central role in economy

FINLAND

LANCE KEYWORTH

FINLAND has seven commercial banks (with 863 branch offices), 278 savings banks, 373 co-operative banks, five mortgage banks and three development credit i nstitutions. In addition, co-operative stores accept deposits from their members, and the Social Insurance Institution and 56 private insurance companies engage in lending. This is a remarkably thick blanket of money market services for a population of 4.7m, but perhaps not quite so thick for a country of such a big area and a clientele that still puts its faith in banking against the rainy day what inflation and the taxman leave to it.

Banking plays a more important role in Finland than it does in the economies of many other Western developed countries. Bank deposits by the public constitute the biggest part of the money supply, and the development of the broad money supply (M2) follows very closely the changes in the deposit flow of the banks.

Like the Finnish economy, the banking syste mis mixed, with the private sector predominant. The deposit side of bank trading is almost entirely in the hands of private banks, with only Postipankki competing (Postipankki, State-owned, translates unofficially as Post Office Bank. It runs the postal Giro system, handles State payments and offers all the services of a commercial bank.) On the credit side, however, the public sector's role has been increasing and State institutions now take 40 per cent of the market. The Government's steady encroachment on the banking sector is a major concern among private bankers.

Independence

The Bank of Finland, the central bank, enjoys a degree of independence and authority rare among central banks in the Western world. So far, it has guarded this independence zealously.

It is the main decision-maker on monetary policy. The central bank is virtually the only source to which the banks can turn for the funds that they always need in addition to their deposit holdings to finance trade and industry. It uses this position to regulate lending, tightening or loosening its supply of credit to the banks as it deems the situation requires.

It has now completely refurbished the monetary machinery needed for this purpose, making it more flexible and faster-acting, and bringing it into line with international practice. The old and rather cumbersome system of fixing quotas for the commercial banks' borrowing from the central bank has been abandoned. Almost the entire requirement of central bank financing must now be met from the call money market, which is run by the Bank of Finland. There is no ceiling to drawing rights in this market but a bank that uses it exceptionally heavily has to pay a penalty rate in addition to the going rate of interest.

In addition, the Bank of Finland operates a cheque account credit system for the banks, entitling them to fixed credit at the basic rate on interest. The current credit ceiling is FM 1bn (about £119m). The third piece of regulatory machinery is the deposit reserve system. This enables the Bank of Finland to order the deposit-taking banks to freeze temporarily in a specitl account up to 5 per cent of their deposit stock in monthly steps of 0.4 per cent. In other words, it can cream off excess liquidity when the money markets is too easy.

About the only instrument of monetary policy which the Bank of Finland cannot use at will is to vary the basic interest rate (also known as the discount rate). This rate has assumed a political character. It is fixed under law by the Parliamentary Bank Supervisors on the recommendation of the board of management of the Bank of Finland. In fact, while there is little difficulty about lowering interest rates, any attempt to raise them causes a political storm.

The basic interest rate was lowered twice during the recent recession to help in moderating union wage demands but has now been restored to its old level. The upward adjustments were only achieved, however, by a politically enforced balancing act involving simultaneous adjustments to the external value of the Finnmark.

Finnish banking legislation strictly limits foreign banking activity in the country. Foreign banks may not incorporate in Finland but are allowed to open representative offices, which a couple have done. They are not allowed to open branch offices, engage in borrowing or lending business or undertake banking transactions. A foreigner may acquire shares in a Finnish bank but only with the permission of the Ministry of Finance and then only up to 20 per cent of the bank's equity.

Banking law also strictly circumscribes the right of banks to pursue industrial activity. Finnish banks may not own more than 20 per cent of the share capital of a company pursuing business that is not directly related to banking, and such holdings in aggregate may not exceed 10 per cent of the bank's own equity. Exceptions can be made for limited periods —e.g., to mount rescue operations for industrial enterprises of importance to the national economy.

The deposit-taking banks have the rights and offer the services of commercial banks. Although they are traditionally divided into four groups—commercial banks, proper, co-operative banks, savings banks and the Postipankki—they are now usually all referred to as deposit-taking banks. As they all apply the same interest rates on deposits and loans, inter-bank competition is concentrated on personal and corporate client services. And competition is fierce—in the opinion of some bankers fierce to the point of being unhealthy and in the Bank of Finland's opinion leading to offers of over-generous terms for housing and other personalI oans to attract clients.

WORLD BANKING XIII

Growing intervention by the Riksbank

SWEDEN

WILLIAM DULLFORCE

SWEDEN'S commercial bankers posted an average rise in earnings of 15 per cent in 1979 and yet they have been in a most fractious mood during the first months of 1980. This is only partly due to the slump in profits—some say as much as 40-50 per cent—they anticipate this year.

An equally potent ingredient in their disgruntlement has been their disappointment at the increasing intervention in their business of the Riksbank, the central bank, and the Government.

Much of this disappointment focuses on the new Riksbank governor, Mr. Lars Wohlin, who switched last year from being Undersecretary of State at the Economy Ministry and who, the bankers feel, is reneging on his liberal economic principles.

There is no official control of deposit rates in Sweden; banks are free to compete for saver's money. But for years lending rates have been determined by "voluntary agreement" between the banks and the Riksbank. Now the Riksbank has asked the Government to use its powers to fix a ceiling on lending rates.

Squeeze

Following the upward movement in international interest rates last year the Riksbank raised its discount rate in four stages from 6.5 per cent in July to 10 per cent in January. In the later stages the permitted rise in the long-term lending rate (still under the "voluntary" system) was lower than the increase in the discount, producing a squeeze on margins which became apparent in the downward trend of bank profits from the autumn.

The obligatory liquidity reserves imposed on the banks, were raised to 38 per cent for the big commercial banks, while the cash reserves the banks have to deposit with the Riksbank were put up from 2 to 8 per cent.

Next, partly as a result of resistance from the insurance companies to its efforts to stop them adopting inflation-indexed "real interest" rates for their lending, the Riksbank asked the Government to apply the credit Policy Act, under which it can regulate directly bank and insurance company lending rates for a year at a time.

SLM5—

The Government stipulated in April that the average lending rate should not exceed 13.8 per cent in the commercial banks and 13.65 per cent in the savings and co-operative banks. In addition the Government allowed the Riksbank to prescribe the amount of mortgage bonds and state securities to be bought by the insurance companies.

The Riksbank rounded off an unusually active month by offering the banks a sop. It announced that they could decide for themselves the interest rates on future bond issues for industry and business. The central bank retains its licensing control over industrial bond issues and the interest rates on the mortgage and state bonds, which dominate the Swedish capital market, remain regulated.

In April, too, the Riksbank slashed the commercial banks, reserve requirements, stipulating that they should deposit 2 per cent of their cash with the Riksbank instead of 8 per cent. This was no easing of central bank credit policy.

Instead, under an understanding with the Riksbank, the banks will invest the cash released in two new bonds, issued by the state debt office. They will get a better return on their money but the Riksbank also manages to finance a portion of the 1980 Government budget deficit.

The revised budget submitted by the Government last month puts this deficit at SKr. 55bn £5.7bn) or 11 per cent of GNP Together with the anticipated current account deficit of close to SKr 17bn, it is the Riksbank's and Government's main argument for continuing a stringent monetary policy.

According to the revised finance plan SKr 16-22bn of the budget deficit will be financed through the banking system this year with a further SKrf 13bn coming from other Swedish capital market sources and State borrowings abroad accounting for SKr 13-17bn.

To dampen the inflationary potential of this deficit financing, the Riksbank, has indicated a 9 per cent limit for the increase in the banks' further aggregate lending this year, except for those loans the banks can refinance abroad.

In regulating interest rates on bank lending the Riksbank is walkin ga tightrope. It has to pay attention to international interest levels, in order to protect the reserves. Lower Swedish rates would favour industrial investment, which the Government wishes to stimulate, and help to slow down price increases.

The formal honour for starting this conflict goes to PKbanken which introduced a new 24-month account with a higher interest rate. But the state-owned bank's action was prompted by reports of the new single account system which the real culprit, Svenska Handelsbanken, was about to launch.

Termed the allbonto, this new type of deposit account merges a customer's current and savings accounts into a single account, where with sophisticated computer programming the interest payable is automatically adjusted to the periods for which sums are retained. Svenska Handelsbanken calculated that it would both simplify banking for its customers and in the long run reduce its own account handling costs.

The bank pays interest at an annual rate of 11.25 per cent on deposits of over SKr 14,000, but charges 0.1 per cent of any amount withdrawn. By the end of January allkonto balances had reached SKr 6.9bn. An increase of SKr 1.6bn in the month of January alone, and the bank's directors remained convinced they had found a winner.

Innovation

Another innovation on the Swedish scene has been the right for banks to issue bank certificates from January this year. Modelled on the British and American certificates of deposit, these are intended to be an alternative for the funds finding their way into the so-called special deposits through which the banks compete at high interest rates for companies' spare cash.

With the discount rate at 10 per cent the rates paid on these special accounts have been around 13 per cent. They are estimated to have accounted for almost 30 per cent of the commercial banks' total deposits or roughly SKr 45bn.

At the same time the Riksbank is greatly concerned about the growing indifference to interest rates among consumers, which it attributes to the taxation system. The commercial bankers argue that the best way to curb consumer credits would be to allow interest rates to find the market level: the Riksbank fears that consumers' insensitivity to high rates would persuade companies to feed the consumer market with money rather than to invest in plant and machinery.

the swift expansion of the so-called "grey" or free money market is a particular bone of contention between the Riksbank and the commercial bankers. From July the Riksbank controls on lending rates and bond issues are being extended to the finance companies, several of which are subsidiaries of the banks.

The root of the dispute between the Riksbank and the banks lies in differing priorities and the interaction between fiscal and monetary policy. The governor, Mr. Wohlin, takes the line that before monetary policy can move again in the dertction of liberalisation the government must first revamp its fiscal policy and seriously cut spending, and secondly, revise the tax system so that people can get a real return on savings after tax.

For one other factor holding down profits this year the banks have only themselves to blame. This is the so-called "interest-rate war" in deposits which they set off last autumn.

The hope is that the bank certificates will stabilise this relatively volatile deposit business, particularly if a secondary market can be built up. The only limit so far imposed is that the certificates' term should be at most one year.

The initial reception of these certificates has been good and some trading in certificates among the banks themselves is taking place, but the Riksbank itself has yet to show interest in buying and selling the certificates, for which the banks have been hoping.

Credit ceiling stays put

DENMARK

HILARY BARNES

DENMARK'S EIGHTY commercial banks and 170 savings banks were caught out in April. They had expected the National Bank (the central bank) to make a routine increase in the credit ceiling, or ceiling on loan commitments, but the increase did not come. As a result the banks had to deposit over DKr 1bn in interest-free accounts with the National Bank, the penalty for exceeding the credit ceiling.

The even was not a major one in itself, but it symbolises a great many of the issues which are pre-occupying the banks today: the tightness of the credit policy, the way it is administered and the precarious foreign exchange position which makes it all necessary.

Because Denmark has run a current balance of payments deficit for the past 20 years, building up a net foreign debt of DKr 77bn by the end of last year, the authorities have been forced to adopt increasingly stringent policies to restrict domestic credit expansion. Both the credit ceiling and the interest rate mechanisms are used to restrict lending in kroner and to ensure that a substantial part of the current balance of payments deficit is covered by business sector borrowing abroad. For more than a decade interest rates have been held at a level above the going rates on loans abroad as an inducement to borrow abroad, and in so far as this has not been a strong enough incentive, the credit ceiling has forced would-be borrowers to go abroad.

The discount rate since February has been at a record 13 per cent. Interest rates on bank advances are in the 19-20 per cent region. This does not in fact leave any rate margin between foreign and domestic borrowing and consequently private sector borrowing abroad this spring has been extremely low.

This was one of the reasons why the National Bank felt that it could not raise the credit ceiling, as any increase in domestic liquidity would be sure to be reflected in the foreign exchange position. As the reserves have fallen by about DKr 6bn to DKr 13.5bn so far this year, there is no room for manoeuvre.

From the National Bank's point of view, the main complicating factor is the Government budget deficit, which this year will be about DKr 12bn before loan transactions. The total borrowing requirement will be about DKr 38bn and the net borrowing requirement (i.e., after allowing for borrowing to cover redemption of maturing loans) about DKr 18bn. The total borrowing requirement will be about 11 per cent and the net requirement about five per cent of Gross Domestic Product.

While the Government and the National Bank are in principle agreed that the budget deficit should be financed by the sale of Government paper, it does not always work out that way. Last year the money supply (M2) increased by about DKr 14bn, or 10 per cent. Government drawings on the National Bank accounted for DKr 9.7bn of the increase and Goernment sales of paper to the bank sector for another DKr 6.1bn, so that the Goernment's impact on money supply growth was DKr 15.8bn.

Drawings

On a couple of occasions last year the Goernment preferred to suspend the sale of bonds and Treasury bills rather than to see a further rise in interest rates, but this led to a drain on the foreign exchange reserves. In its annual report, published in March, the National Bank complained that the budget deficit faced it with an "almost insoluble problem" and declared that a substantial reduction in the budget deficit was "an indispensable condition for progress towards a better equilibrium in the economy." But the government's new round of economic policy measures carried out this month, including cuts in public spending, an increase in valut added tax from 20¼ to 22 per cent and higher energy taxes, will not in fact cut the budget deficit next year.

The credit restrictions have affected the banks adversely in several ways. It is not so much their earnings that have been suffered; but an increasing proportion of their earnings is coming from their rising bond portfolios. As they cannot lend in excess of the credit ceiling, they have had to increase their holdings of securities. They have also been hindered in competing for deposits by restrictions on the interest rates which they can offer, a situation which has favoured the bond market.

Another effect of the credit restrictions is that banks have steadily lost industrial business as companies have raised an increasing proportion of their credit in the form of foreign loans. As Professor P. Nyboe Andersen, chief general manager of Handelsbank, told the annual meeting of shareholders, in the first half of the seventies about 23 per cent of industry's loans came from Danish banks, but in the second half of the decade the share fell to 7 per cent.

Last year, however, the banks were able to win back a considerable share of this business when the major banks were permitted to open Cayman Islands branches. The reasons behind this are peculiarly Danish.

When the National Bank adds up the foreign exchange reserves, it makes a deduction for Danish banks' currency loans to Danish customers. Therefore the National Bank only allows the banks to raise a small quota of currency loans on their own account for relending domestically. Until last year this meant that the Danish banks provided guarantees for foreign banks to lend to the Danish customers.

But the Cayman branches count as foreign banks for foreign exchange reserve computation purposes, and thus the banks have been able to borrow in their own name through the Caymans for re-lending to Danish customers. In the course of the past 12 months Danish Banks' foreign lending has thus risen fro mabout DKr 600m to well over DKr 3bn.

The interest in foreign borrowing has also stood the foreign banks in Denmark in good stead. Five of them—Bank of America, Chase, Citibank, Standard and Chartered and American Express—have subsidiary banks in Copenhagen and several others have representative offices. None of them has gone in for retail banking, but they have been able to take a considerable share of the foreign business from the Danish banks.

As the Cayman initiative indicates, the Danish banks are responding to the challenge. They are also stepping up their own international engagements in other ways. Copenhagen Handelsbank joined three other Nordic banks in openin gthe first wholly owned Nordic consortium bank in North America, Nordic American Banking Corporation, based in New York. Privatbanken opened a branch bank in New York and also acquired the London-owned bank United International Bank. Dankse Bank, Handlesbank and SDS (the largest of the savings banks) have also intensified their international operations.

While 1979 was a reasonably good year for the banks, prospects for 1980 are less promising, the high level of interest rates will hit their operating results as wel as causing unrealised losses on securities, which under th eDanish system are entered in the profit and loss account at their value on the final trading day of the year.

Over the longer term, however, the banks claim that their earnings will not be sufficient to enable them to achieve the necessary degree of financial consolidation. Over the last few years all the big banks have resorted to the use of subordinate loan capital to maintain the legally required minimum ratio of reserves to deposits and guarantees of 8 per cent, but in future they fear that either the Government will have to allow them to earn more or it will have to reduce the 8 per cent ratio, which is very high by international standards. Some banks may run into problems with the ratio as early as next year, say bankers.

Programme of cautious reform proceeds

FRANCE

TERRY DODSWORTH

THE CAUTIOUSLY reformist instincts of the present French Government are clearly illustrated in the development of the French banking sector in the last few years.

It has pressed ahead with changes designed to propagate the liberal economic ideas of M. Raymond Barre, the Prime Minister. But it has not liberalised too much. Indeed, in some ways, notably in the now notorious credit ceilings growth system which limits the expansion of lending, the Barre Government has tightened its hold over the banks.

The main issues in the reform of French banking were set out last year in the unpublished, but well-leaked Mayoux report.

Prepared by M. Jacques Mayoux, a former director-general of Credit Agricole, the quasi-State farmers' bank, the report was sufficiently controversial to have found its way onto one of the Economics Ministry's dustier shelves rather than into an immediate Government Bill.

On both the issue of regionalisation and competition within the bankin gsystem, the Mayoux report's proposals served only to underline the preponderant weight of State direction in the French banking system.

Reconstruction

Since 1945, commercial banking has been dominated by the three banks—Banque Nationale de Paris, Credit Lyonnais and Societe Generale—which were taken over by the state as part of the reconstruction programme after the war.

Alongside these operations, which rank among some of the largest banks in the world, the French system also embraces a large number of State and quasi-State institutions which have a central influence on the savings market and on lending.

The Credit Agricole was developed as a means of providing cheap finance in remote farming areas, sometimes served by a mobiel banking office. The Credit National is designed to channel funds into industry, raising its own money on the fixed interest market but also channelling special Government credits.

In order to develop their activities, these organisations have been controlled through special privileges in return for operating under certain constraints.

The Credit National's role in financing medium term industry, for example, is helped by the way the Government channels special credits through its branches, and the bank also has the right to discount the paper of the commercial banks with the Banque de France.

Until the mid 1960s, the banking system was also deeply split by another regulatory device, the division between the merchant banking type "banque d'affaires" which based their activities on industrial investment and were barred from accepting sight deposits, and the deposit banks, which were not allowed to take major shareholdings in industry.

Reforms brought in by M. Michel Debre, the then Finance Minister, swept away this distinction, opening up the system to greater competition and mobilising France's vast savings potential, which up to that time had been greatly underused.

The present Government's tentative reform efforts are designed to take some of the Debre measures a step further.

Once again, the idea is to take away some of the special privileges which have tended to hedge the banks into closely defined operational areas. The intention is to create greater competition between the banks which should, in theory, produce more efficient concerns better able to operate on the international scale.

Three main measures have been introduced so far. The first of these has been designed to bring the Credit Agricole more firmly into the "normal" banking system, subject to similar constraints. This objective is being achieved through taking away the bank's tax privileges, based on its co-operative charter, so that it will begin paying tax on two-thirds of its "surplus."

In return, the bank will be able to break out of the straight-jacket which gave it the right to lend only to farmers in small rural communities. It will now be able to move into the food processing industry (another target of Government support) and gradually into any kind of medium-sized enterprise.

The second measure was aimed at limiting the rapid expansion of the Credit Mutuel, one of the two main tax-free savings account organisations in the country. According to its critics, Credit Mutuel is growing at the expense of the rest of the banking system, because of its right to give tax-free interest on its deposits.

The Government has responded by prohibiting depositors from holding both Credit Mutuel accounts and conventional Post Office accounts.

Thirdly, the banks are now adjusting lending ratios to bring the French system more into line with standard practice overseas.

Centralised

The difficulty in introducing more sweeping reforms lies mainly in the dependence a large part of the banking system has on the State and on centralised planning in Paris.

Although France has several significant private banks — including Credit Industriel et Commercial, which claims to be the largest with 1,500 branches, Credit Commercial de France, and the Banque Hervet — the nationalised trio still dominate affairs, and they have rather special problems.

One of the difficulties is to increase their capital to meet the new reserve ratio targets.

The solution arrived at by the Government was to persuade the banks to appeal for funds to the private capital market—they are legally entitled to do this for up to 25 per cent of their equity.

But after a successful issue of this kind by Societe Generale, the policy came unstuck when Credit Lyonnais refused to play the game. The Government had to come up with a special debenture-type convertible loan, enjoying highly privileged interest rates, because the bank argued that its own finances should be going into overseas developments.

A second problem lies in the inbuilt institutional limitations on the effort to give greater authority to banks in the regions.

The Mayoux reports strongest recommendation was that decision-making in the banks should be decentralised, and the Government is continuing to cajole the banks in this direction as a means of supporting local industry. The banks themselves claim to be responding. But there is a clear preference in favour of maintaining the strength of their Paris operations, both because of the expense involved in regionalisation and because of the influence of the Government's own decision-making administrative machine at the centre.

The third difficulty lies in the Government's "encadrement du credit" system. Designed to limit the growth in bank lending by a fixed proportion every year according to the type of loan, "encadrement" is being steadily tightened this year to keep money supply growth within the Government target of 11 per cent.

The Government's reliance on this type of control, rather than on interest rates or open market operations, is partly due to the existence of the European Monetary System.

The franc has been so strong within the EMS this year that there has been a danger that the authorities would have to bring interest rates down to maintain it at the right level against the Deutsche Mark. The system is awash with liquidity following the inflow of Arab funds this year, so the effort to restrain lending has had to lean heavily on direct controls.

But "encadrement" also locks the banks into their established historical lending patterns. The margin of growth is so small that it limits the possibility of new competitive ventures—and so of one of the Government's main objectives in banking reform.

As a result, most of the new pressures in French banking in the last few years have come from the development of foreign banks in France (5.6 per cent of total deposits of FFr 642bn), and the growth of French banks overseas.

Politics weigh heavily

ITALY

RUPERT CORNWELL

IF EVER ANYTHING, on the face of it, were ripe for reform that something would be the Italian banking system.

Legally it still rests on a framework created in 1936, when fascism was at its height; structurally it is probably more fragmented than any comparable system in Western Europe. Legal ambiguities over the differing status of private and publicly owned banks have contributed to the wave of scandals that has rolled through the sector in the last two or three years.

Scandal

It is in a sense paradoxical that a system permitting so many irregularities, and whose reputation has sometimes been cast in doubt by scandal, should be headed by one of the most influential central banks in Europe, possessing some of the greatest regulatory powers.

Stranger still, the Bank of Italy has long been perceived as perhaps the ultimate guarantor of the country's financial respectability. Governments come and go but the governor of the Bank of Italy usually remains: there have been only seven since 1900.

Invariably he has been a figure well above the maelstrom of party politics and a rigorous defender of the bank's independence and integrity.

In no case was this more true than with Dr. Paolo Baffi, who became governor in 1975, in the depths of the mid-decade Italian financial crisis.

By 1978 he had given Italy the West's largest balance of payments surplus, resurrected the lira, and replenished the reserves, which in early 1976 had fallen to only $500m.

Yet Dr. Baffi himself fell victim to scandal and intrigue, almost certainly a political plot mounted to curb the zeal of the Vigilance Department of the central bank in its investigation of bank lending.

Dr. Baffi was spared the indignity of a spell in prison for interrogation by examining magistrates only because of his advanced age. His deputy, Sig. Mario Sarcinelli, was less fortunate and suffered precisely that fate, before being completely cleared of any suggestion of wrongdoing.

Nonetheless the episode contributed to Dr. Baffi's decision to step down last year, and severely shook morale at the central bank.

If foreign and Italian observers, all utterly convinced of the proprietly of the Bank of Italy's behaviour, were bewildered, then that is not surprising. One of the prime causes of the Bank of Italy affair — and of the more recent sensation when 30 bankers were arrested one March dawn in connection with the Italcasse savings institute scandal — is the vast latitude given to examinig magistrates.

Highly politicised, the magistracy is virtually a fifth estate of the Italian realm.

In the specified field of banking its powers are particularly sensitive because of the curious differences in the law as it pertains to private banks on the one hand, and public ones on the other.

The SIR and Italcasse affairs are perfect examples of this problem. In the case of Italcasse there are in fact two "scandals." The so-called "White funds" were lent by the institute to certain borrowers, perhaps unwisely but not illegally in nay normal sense of the word.

Among the recipients of "white" loans were Sig. Bovelli, whose SIR later collapsed in an ocean of debt, and the Calagtrone brothers, whose own contruction empire perished in the same way.

For these lendings, rash indeed as subsequent events proved, bankers could be — and in the case of 39 were— arraigned for misuse of public funds, by extending loans without proper guarantees.

But these "white" funds, which did appear on the Italcasse balance sheet, are separate from the institute's "black funds" — in essence a slush fund for political payments which never appeared on any record. The Italcasse "black funds" indeed are the extreme example of the sady links which can be created between the banking system and politicians.

Not surprisingly the public sector banks are pressing for a new legal framework which could place them on the same footing as their private counterparts, while calls are mounting for a new law to govern political party financing.

The position of the public banks is all the more grave in that they are being called on to shoulder the lion's share of the burden of rescuing bankrupt industrial groups of which SIR is just one. Others include the chemical group Liquigas; the Montefibre fibres concern, and Snia Viscosa.

Given the upheavals and uncertainties of the last couple of years, the Italian banking system has in fact shown itself remarkably resilient, but both the Prime Minister, Sig. Francesco Cossiga, and the Treasury Minister, Sig. Filippo Maria Pandolfi, have on more than one occasion been forced to publicly reaffim the solidity of the system.

Squabbling

But there are other political problems. Squabbling among the parties over who should fill public sector banking posts has meant that more than 60 local savings banks are without chairmen.

The signs, moreover, are that the practice of political division of the spoils (or lottizzaione as it is called in Italian) is spreading down the ladder to the key executive level of managing director.

In some respects the banking ssytem, liek many other aspects of Italy, is saved by its very fragmentation. At the last count 1,069 banks and other credit institutions existed in the country. If the state controls the bulk of the system through the 120 banks and savings banks (including the very largest of all like Banca Nazionale del Lavoro, Credito Italiano, Banca Commerciale Italiana and Cassa di Risparmio Delle Provincie Lombarde) which handle 62 per cent of total deposits, the myriad of smaller banks provides a perfect link with the smaller local or provincial companies which are the backbone of the Italian economy.

There are 650 of these casse rurali (or rural banks), plus a further 163 banche popolari, owned on a co-operative basis.

Perhaps the most dangerous reason for the complacency of the banks is the fact that for the average tIalian, there is no alternative home for his savings. Exporting capital is both risky and less attractive than before, while the stock market is tiny and a haven only for insider trading. Along with property, a bank deposit account is the only real option open to the investor.

Outlook for earnings remains healthy

SWITZERLAND

JOHN WICKS

THE SWISS banking community is enjoying excellent health. Business is expanding fast and everything points to a system-wide improvement of earnings.

Although prospects are somewhat marred by the possibility of new regulatory measures, banks are generally feeling quite pleased with life at the beginning of the '80s.

The lion's share of banking business is in the hands of the Big Five. These are Swiss Bank Corporataion, of Basle, the Zurich-based Union Bank of Switzerland and Crédit Suisse, Swiss Volksbank (Berne) and Bank Leu, also of Zurich.

Their share, which reached a combined SwFr 215bn ($124.3bn) at the start of this year, continues to grow. As universal banks, they are consolidating their already very strong position abroad and recently have been making inroads into some of the domestic operations in which the cantonal and regional banks have traditionally been very active.

While the big banks grew in balance-sheet terms by 12.4 per cent over the past year, the 29 cantonal banks expanded at only about half this rate. These banks are the closest Switzerland gets to state banking; even the National Bank, as the central monetary authority, is not nationalised.

Not least because of the increasing competition within Switzerland, the cantonal institutions are becoming much more universal in their approach. Some of them are looking at distributing part of their capital among the investing public.

The joint assets are a substantial Sw Fr 94bn ($54.3bn) or more, or three times those of the 37 regional and savings banks—a group which has been growing at a rate of under 3 per cent.

Since the National Bank temporarily suspended its money-supply aims about 18 months ago, successfully concentrating its efforts on dampening the exchange rate, there has been plentiful liquidity for clients of the Swiss banking system.

The most noticeable result has been a marked upswing in bank loans. With the Big Five gaining a lot of ground, the total of outstanding domestic loans expanded by 9.5 per cent last year.

This was due largely to heavy demand for cheap mortgages and a rise in building activity following the long period of slack construction demand. The mortgage business is of key importance to Swiss bankers, since Switzerland has by far the highest mortgage debt per capita—over $7,440.

If domestic loan business has burgeoned, foreign loan grants have rocketed.

Latest figures show a certain falling off in this sector, it is true, but annual totals for 1979 indicated a jump by no less than 41 per cent to Sw Fr 11.88bn ($6.87bn) in new business. This meant that in net terms there were almost as many foreign as domestic loans granted.

Swiss banks were also closely involved with the increase in other forms of foreign borrowing. Bond loans totalled a record Sw Fr 5.2bn ($3bn) and private placements Sw Fr 10.3bn ($6bn) last year. Like bank loans to foreign clients, however, these borrowings have recently shown a downward trend.

As far as attracting deposits is concerned, Swiss banks have in the past months been faced with the necessity of raising interest rates to their highest level in some six years. Time deposits have been increasing fast—both domestic Swiss franc deposits and foreign deposits in other currencies—while sight deposits are well below previous figures.

Competition on the home market is very sharp, a fact the big banks have taken into account by their recent decision to reintroduce voluntary restrictions on the opening of new branches. At the same time, at least some of the foreign business in the past couple of months has been restrained by the uncertainties in interest and exchange rate patterns.

Referendum

While, generally speaking, the banks are about as sanguine as banks ever are in Switzerland, a number of questions continue to plague them.

The most long-standing is that of the referendum called by the Social Democrats to institute stricter controls over banking business. Although this motion stops short of scrapping the principle of banking secrecy and very far short of anything approaching nationalisation, it would have far-reaching effects for the banks.

At present, it seems unlikely that the bid will succeed. Quite apart from the fact that the new Finance Minister, Mr. Willy Ritschard — himself a Social Democrat—has indicated that he will join other cabinet ministers in opposing the motin, referenda on left-wing proposals tend to be defeated. Another full-dress banking scandal in the next year or so, could make things look different of course.

Less unlikely is the introduction at some date of a so-called bank tax. A Social Democrat proposal for a 5 per cent withholding tax on interest from fiduciary accounts, was turned down in Parliament in autumn 1978.

At the same time, the Swiss Banking Commission is working on various proposals to tighten controls. One of these foresees a new method for calculating banks' capital fund requirements, details of which are in the process of being presented to the Government.

Since 1978 banks have had to supply the Commission with consolidated financial statements. The results have served the control body as a basis to re-think capital ratio criteria.

Nevertheless, not all banks are happy at the intention to place greater importance than hitherto on banks' assets in ratio calculations. Also, some of them will be affected by the new rules restricting banks setting up subsidiaries to increase loan potential without a corresponding increase in capital backing. The rules will probably come into force early next year.

Another outstanding problem is that of protection from loss of clients' deposits. Some protection already exists, but only in the form of preferred claims under bankruptcy for savings accounnts of up to SwFr 10,000.

The 15 banks included in a Banking oCmmission report on insolvencies from 1971 to 1979, which led to creditor losses of nearly SwFr 1bn ($578m) in all, accepted no savings accounts of this kind. The banking community sees this as proof that client protection is a non-issue, the Banking Commission as an indication that what protection exists is irrelevant.

Boom years clearly over

THE NETHERLANDS

CHARLES BATCHELOR

THE STEADY rise in Dutch banking profits came to a halt over the past year as political and economic uncertainties increased internationally and the domestic economy faltered. Recent reviews by both the central bank and the Central Planning Office held out no hope of improvement in the short term and commercial bankers have been even more cautious than usual in their forecasts.

Private banks dominate the banking picture in the Netherlands, though a number of State or semi-State banks operate in areas such as the financing of local authorities and the water boards. The State also has a 23 per cent stake in Nederlandsche Middenstandsbank (NMB3, the number four in the banking league, though the bank operates on a purely commercial basis.

Three large banks jockey for position at the top of the Dutch Bank Nederland (ABN) is cur- banking league. Algemene rently top in terms of total assets, with Fl 86.7bn ($43.4bn) at the end of 1979, but less than Fl 3bn separate it from the Rabobank and Amsterdam-Rotterdambank (AMRO). NMB is only half the size of the big three, though it leaves the rest of the field well behind.

AMRO and ABN, which are the most comparable in terms of their activities, produced almost identical net profits last year, while Rabo-Bank, with its vastly different structure, topped the profits league. Rabo-Bank is an agricultural co-operative which has steadily expanded into a general retail bank and is now developing its international operations. NMB too is flexing its muscles on the international scene on the basis of its domestic activities, which are traditionally aimed at the financing of small businesses.

While mergers have reduced the number of Dutch banks from 114 in the early 1960s to only 20, the number of foreign banks continues to swell. There are 37 with full branches in the Netherlands, while a further nine have representative offices. The foreign banks now account for 13 per cent of the market in terms of total assets, though their share of the domestic market is smaller at 7 per cent.

The boom years are clearly over, though and both First National Bank of Chicago and Bank of Montreal have pulled out. The Chicago bank gave "cost-cutting" as a reason for its move, while Bank of Montreal revealed that the losses on its Amsterdam office had reached unacceptable levels. Lloyds Bank International has also been rethinking its policy in the Netherlands and has shut down its loss-making stockbroking and portfolio management activities.

The savings banks play an important part in the retail banking scene, accounting, together with the Post Office savings bank, for about 10 per cent of hte total assets of all Dutch banks. The concentration process is continuing, with 15 small local banks recently deciding to link up in the form of a co-operative association rather than the full merger which has characterised the savings bank movement in recent years. There are now around 80 independent savings banks compared with 250 a few years ago.

Risk capital

The problem of the shortage of risk capital has absorbed much of the attention of Dutch bankers in recent months. Banks are prevented from taking a permanent holding of more than 5 per cent in non-banks. Dr. Wim Duisenberg, a former Finance Minister and now a member of the board of Rabobank, proposed this limit should be raised to 10 per cent.

The central bank remains opposed to the idea, however, because of the additional risks involved, though Dr. Zijlstra, in his latest annual report, pointed out that temporary holdings of more than 5 per cent are possible. He also urged banks to form "participation companies" which would provide risk capital. This would increase the flow of funds to industry while allowing the banks to keep their distance from the business risks involved.

One reason for the central bank's opposition to a greater direct involvement of banks in industry is the deterioration in the bank's solvency ratio in recent years. Banks' assets amounted to 8.9 per cent of credits granted at the end of 1979 compared with the requirement of 7.5 per cent. The margin between available and required assets fell to 1.4 per cent and was narrower than at any time since limits were first applied in 1973. Despite an earlier plea from the central bank for the commercial banks to increase their equity capital only one bank made a share issue in 1979.

More freedom in the offing

NORWAY

FAY GJESTER

AFTER LIVING for decades under a system in which the state has regulated both the credit supply and the interest rate structure, holding interest rates at an artificially low level, Norway's banks are this year looking forward to a somewhat freer future.

Policy changes now on the horizon are expected to reduce the dominating role of the state banks in the credit market while market forces will be allowed rather greater play in determining credit supply and interest rate levels. One leading Norwegian banker has even suggested that Norway could follow Britain's example and lift restrictions on currency movements, since oil revenues will soon make the country a net capital exporter.

Over the past year, two reports have been published by independent government-appointed committees which have studied various aspects of the way Norway's credit market functions. One group concentrated on the market's structure, including the role of the state banks. The other concerned itself mainly with interest rate policy. Both reached conclusions which pointed the way to a modification of the present rigid system. Their recommendations are expected to be reflected in a government white paper on credit policy due to be tabled shortly.

The committee which studied credit market structure was chaired by Mr. Hermod Skaanland, a deputy governor of the Bank of Norway. Its report said the existing state bank system created inflationary pressure in the country by offering subsidised credit on a far greater scale than was necessary to achieve desirable social goals.

The eight state banks provide cheap medium- and long-term loans for housing, agriculture, fisheries, industry, regional development and student education. Mostly because the terms they offer are so attractive, their share of the market has swollen, over recent years, at the expense of the savings and commercial banks. Originally intended as a supplement to the private capital market, their lending now accounts for half the total credit supply. Political pressures make it easier for a Labour Government to cut private bank lending quotas, when the credit supply has to be curbed, than to limit lending by the state banks.

Cheap loans

The Skaanland committee pointed out that many of the people receiving cheap loans from the state banks could well afford to pay the market price for the credit they needed. Those who did need subsidised credit could be helped in other ways, it argued. There were limits to how sharply private lending could be reduced to make up for the state bank's steady expansion. All the various quota arrangements created to ration the credit supply led to a segmentation of the market which made it difficult to pursue flexible credit policies, the committee pointed out.

The Government has already shown its agreement in principle with these arguments, by a decision, late last year, to transfer some housing finance from the state housing bank to the private sector, under special conditions. Though the proposed move was a modest one, affecting only 6,000 of the 36,000 houses and flats due to be started in 1980, it produced an outcry from the ruling Labour Party's Left wing, which described it as an attack on the policy of supplying housing at a "fair" price to working-class families.

The 15-member committee that studied interest rate policy, chaired by the director of the Central Statistical Bureau, Mr. Petter Jakob Bjerve, agreed unanimously that Norway should adopt a more flexible strategy in this field, allowing the cost of most types of credit to vary with supply and demand. The unanimity was impressive, both because of the committee's widely representative composition (including Labour politicians and industrialists) and because its conclusions involved a sharp break with the Labour Party's traditional low-interest policy.

Since the second world war, successive Norwegian governments—mostly Labour—have kept interest rates low. At first, this was justified by the need to encourage investment in post-world war two reconstruction. Later it was retained as an easy way of keeping investments at a high level.

The negative consequences of the policy became apparent only gradually. It was inflationary, stimulating demand for credit, and as a way of redistributing income it was downright unfair. Reinforced by Norway's tax system, which allows deduction of interest payments on any kind of borrowing, it benefited borrowers at the expense of savers, and younger, well-off people at the expense of the poor and elderly.

Austerity

The low-interest policy was amended slightly in December 1977, as part of a package of austerity measures designed to curb consumption and encourage saving. The finance ministry relaxed its so-called "understanding" with the banks and allowed them to charge somewhat higher rates on advances. Rates on deposits also rose. Even then, however, the ministry said that regulation would be reimposed if rates rose too sharply.

Nine months later the banks' freedom of manoeuvre was again restricted temporarily by the imposition of a 15-month prices and incomes freeze, which prevented them from charging higher rates for advances. Though the freeze has now ended, prices are still regulated and so far the banks have not been allowed to increase interest charged on advances. The amount they are allowed to lend is also subject to strictly enforced quotas. This is because of excess liquidity in the economy caused by the Government's inflationary fiscal policies.

Nevertheless, the degree of freedom granted in 1977 has strongly stimulated private saving. The banks took advantage of it by marketing new types of savings schemes designed to attract long-term deposits, and most of these were very successful. Nearly all Norway's banks reported big increases in deposits during 1978 and 1979.

The appeal for a bonfire of currency controls, as soon as Norway's external economy moves into surplus, was made in a speech last month by Mr. Johan Melander, retiring president of Den Norske Creditbank (DNC), Norway's largest commercial bank. As DNC's president for the past 25 years, Mr. Melander has had a lifetime's experience of the distortions created by excessive Government regulation of the currency and credit market. He maintains that less inflationary fiscal policies, coupled with higher interest rates, could quickly eliminate the need for credit curbs. Demand would shrink and supply would increase.

As for currency controls, these will be superfluous as oil revenues begin pouring in, and Norway becomes a net capital exporter. When repayment has been completed of the state's foreign debt, now standing at about $8.4bn, oil earnings should be channelled abroad, to avoid cost inflation in the domestic economy which would destroy the competitiveness of Norwegian industry. A good way of doing this, Mr. Melander says, would be through state investment in the foreign subsidiaries of Norwegian banks. This would help the banks to service Norway's shipping, manufacturing and offshore industries overseas, while at the same time keeping control of Norway's oil money in Norwegian hands.

Benefits

The economic benefits of abolishing currency regulation would be manifold, Mr. Melander argues, including the forging of closer links between the Norwegian and the world economy. They would more than offset any possible loss as a result of increased tax avoidance, following the change.

DNC's undisputed position as the largest Norwegian commercial bank is threatened by the forthcoming merger of two other banks. These are Christiania Bank OG Kreditkasse, until now No. 3 on the banking scene, and the smaller, crisis-hit Andresens Bank, which for two years running has had to pass dividend because of heavy losses on bad loans. When the merger is completed, next month, the new merged bank will have assets roughly equal to DNC's. The latter will try to keep its No. 1 position, Mr. Melander said last month. "It's good for business," he pointed out.

Entry to EEC will herald changes

GREECE

A CORRESPONDENT

GREECE'S formal accession to the EEC from January 1, 1981 will herald further internationalisation of the country's banking system.

Greek banks are expected to undertake a greater share of international business particularly eurocredits. And Greece is likely to become a more attractive market for European banks.

Meanwhile, an interbank foreign exchange market is to be created next June or July as a first step towards liberalising the foreign exchange market in Greece. This is part of new arrangemnts for external transactions to allow Greece's eventual participation in the European Monetary System.

Greece's accession to the Common Market as the community's tenth member does not oblige her to participate in the EMS. But it is recognised in Athens that a major prerequisite for participation would be a reduction of the current inflation rate to average EEC levels.

Inflation reached 24.5 per cent last year and the Government's target is to bring down this year to about 15 per cent. According to present indications, a level around 20 per cent would be a more realistic estimate.

The banking system represents the principal source of financing in Greece, where the stock exchange plays a minor role. The banking system's weaknesses stem from complex state controls, old-fashioned methods and the high cost of services.

The State exercises fairly tight control of banking, largely through the monetary committee, which lays down general rules for bankin lending, sets maximum interest rates, controls foreign exchange transactions, and grants operating permits for Greek and foreign bank branches.

Its overall aims are the proper distribution of available resources towards financing industrial investment and exports and discouraging luxury imports and excessive consumer role.

In addition to exercising control through the monetary committee, the State controls the Bank of Greece, which is the central bank and bank of issue, and owns the Agricultural Bank of Greece, the Hellenic Industrial Development Bank, the Post Office Savings Bank and a number of other specialised institutions.

The state also exercises extensive control over the vital commercial banking sector, which constitutes the backbone of the banking system.

At the annual shareholders' assembly of the three largest commercial banks, the Government's delegate in fact represents the majority of shares, owned by pension and trust funds, and appoints the top management.

These banks, the National Bank of Greece, the Commercial Bank of Greece and the Ionian and Popular Bank of Greece, in turn control a number of smaller banks, insurance companies and industrial, commercial and tourist enterprises.

The three largest commercial banks and their affiliates handle about 80 per cent of total commercial banking business. The National Bank, one of the world's largest banks, has more than 300 branches throughout the country and handles about 55 per cent of total business.

International

Three other privately owned banks are the Credit Bank, Ergobank and the Bank of Crete. The recently established Arab-Hellenic Bank operates under the conditions laid down by the currency committee in May 1979 for offshore banking operations in Greece. Its US$15m capital is jointly owned —40 per cent by the National Bank of Greece, 30 per cent by a Libyan bank and 30 per cent by Kuwaiti interests.

International banks have been attracted to Greece since the country became an associate of the EEC in the early '60s, despite the smallness of the local market and strict foreign exchange regulations that precluded, among other things, transactions in Eurodollars.

Apart from offering the usual banking services to Greek and international clients, foreign banks have taken advantage of the large-scale Greek shipping and tourist traffic in transacting many worldwide operations.

Fifteen foreign banks are now offering full commercial banking services. Seven are North American, four British, one French, one Dutch and two Middle Eastern. Arab Bank Limited is the latest addition to the list.

With the freedom of establishment of European Community enterprises, due to become effective next January, it is expected that a number of French and West German banks will establish branches in Greece. Banque de Paris et Des Pays Bas and Societe Generale (of Belgium) which received approval in 1979 are expected to open branches this year.

Foreign banks handle about 11 per cent of total commercial bank deposits and 14 per cent of total credits. One of the practical contributions of foreign banks has been to spur Greek banks to modernise their operations.

Mr. Constantine Mitsotakis, the Minister of Co-ordination, recently agreed that the country's banking system needs reform to make the cost of its operations competitive with foreign banks.

Funds for this market will be derived from compulsory deposits which commercial banks, post office savings banks and insurance banks are required to keep at low interest with the Bank of Greece.

These recommendations, it is argued, will rationalise the distribution of credits granted by specialised institutions, particularly for long-term investment and housing needs, and restrict the present financing of Government expenditures by the issue of paper currency.

Professor Xenophon Zolotas, governor of the Bank of Greece, has said the monetary authorities intend to liberalise lending rates when the overall economic situation permits so that their level and structure reflect market conditions.

They also intend gradually to liberalise interest rates on deposits they accept and to determine interest rates. A first step in this direction was the liberalisation of interest rates on dollar and sterling deposits.

The banks' financing ceilings

CONTINUED ON NEXT PAGE

THE TOP FIVE GREEK BANKS

1978 figures in thousand drachmas

	Total assets	Earnings
National Bank of Greece	369,745,357	1,968,682
Commercial Bank of Greece	108,065,680	488,991
Ionian-Popular Bank	45,054,848	429,585
Credit Bank	38,532,135	131,815
General Hellenic Bank	16,661,355	93,074

Overburdened by heavy State spending

BELGIUM/LUXEMBOURG

GILES MERRITT

BELGIAN financial markets have been beset by a growing illiquidity which has helped push up interest rates.

Traditionally, Belgium has been good to bankers. With a national savings rate of around 17 per cent of income, Belgian banks have long been swamped with comparatively cheap deposits. Borrow short and lend long was not so much a piece of good advice as the Belgian banking sector's enduring motto.

International banks were also attracted by the magnet of Belgium's poistion among the world's top ten export nations and at the heart of the EEC, so that during the past 20 years the number of major international banks present in Brussels has grown fourfold to almost 60.

In terms of banks' external balances, Brussels claims to be ninth in the league of world financial centres with those balances putting it ahead of Tokyo and Milan.

The snag is that, in domestic terms at any rate, the Belgian banking system is now on the slippery slope of an inverted yield curve. Some bankers argue that this will be a fairly short-lived phenomenon, for Belgium is still a wealthy country, but others say recovery will remain blocked by political difficulties.

The country's latest political crisis, which began on April 9 with the resignation of Prime Minister Mr. Wilfried Martens over the Flemish-Walloon language issue, has set back the Government's attempts to control public spending. Mr. Martens is currently caretaker-Premier charged with attempting to form a new coalition, but even if he does so his chances of making a major impact on the adverse trend in the state's finances during 1980 are reckoned slim in Brussels political circles.

The ratio between Government spending and Gross Domestic Product (GDP) is rising inexorably. In 1975 that ratio was 46.9 per cent; last year it reached 53.1 per cent. The EEC average, which moved only slightly upwards during the period.

For the same five years the net deficit of the Belgian public sector increased from 4.4 per cent of GDP to 7.4 per cent.

Paying for the Belgian State's spiralling spending has imposed heavy burdens on the banking system and the domestic capital market.

The Government last year reversed its 10-year standing rule against foreign borrowing and raised around BFr 70bn abroad because private sector industry was being starved of investment funds. This year that level of foreign borrowing could hit BFr 100bn, yet there are signs that domestic lenders are still finding Belgium's gilts burdensome and unattractive. According to some Brussels bankers, BFr 560bn worth of Government paper has now been discounted in the secondary market and a recent state borrowing on the domestic market was dropped because of poor response.

One of the major factors contributing to the Belgian banks' mounting irritation is the current dislocation of interest rates. Short-term rates are higher than longer term ones, so the financial institutions are in the unwanted position of borrowing short at a higher rate than they can lend long.

The Association des Banques Belges was recently moved to complain, when the discount rate was lifted to 12 per cent from 10.5 per cent (shortly before it was dramatically raised in late March by a further two points to an all-time 14 per cent record), that "there is no longer any room for manoeuvre" in the economy.

Alarming

Indeed, subsequent indications are that Belgium's efforts to stem the outflow of capital are not working. The problem is chiefly neighbouring Holland, for the interest rates on sight deposits and savings are substantially higher than in Belgium—around 13 per cent as against up to 7 per cent—and the effect has been to mop up Belgium's smaller deposits at an alarming rate.

Squeezed betwen dwindling deposits and the continuing demands of the state, the banks are reportedly being forced more and more into the inter-bank market. It is, too, particularly galling for Belgian banks to find themselves paying around 17 per cent for funds from the major Outch banks in the knowledge that in part they consist of Belgian money that might have been deposited with them at 6-7 per cent.

The major Belgian banks—which means in effect the Big Three—Societe Generale de Banque, Banque Bruxelles Lambert an dKredietbank—have all managed to record improvements in their total balance sheets and in net profits.

Societe Generale de Banque last year pushed its balance sheet up by 14.5 per cent to BFr 856bn, with profits up 11 per cent to BFr 1.99bn. Banque Bruxelles Lambert announced that its balance sheet had risen by 16.3 per cent and now topped BFr 600bn, with 1979 net profits u p12.6 per cent to BFr 705m. Kredietbank, where the reporting period ends on March 31, revealed last November that at the end of its first half the balance sheet had reached BFr 408bn, up 16 per cent from mid-1978.

Not all banking in the economic union that links Belgium with Luxembourg, though, is so vexed by the problems. For Luxembourg's rise as a financial centre has made the tiny landlocked Grand Duchy just 200 km to the south of Brussels a magnet for international banks.

Only 15 years ago a mere 20 banks made up Luxembourg's financial sector and their emphasis was chiefly on domestic business; their combined balance sheets totalled LuxFr 47.5bn. By the early 1970s the number of banks had almost doubled, while the total amounts of their balance sheets had swollen as part of the new "offshore" phenomenon to around LuxFr 1,000bn.

Today, thanks to Luxembourg's development as a major centre for the Euromarket and for portfolio investment, the Duchy's banking sector has, in terms of activity, recorded a hundredfold growth since the mid-1960s. By the end of last year the 108 banks operating in the Duchy had passed a combined balance sheet mark of LuxFr 3,000bn. To underline the point, it isperhaps worth pointing out that that total of about $100bn compares remarkably well with the $350bn balance-sheet total of all the foreign banks currently operating in the City of London.

Belgium's own attitude towards the Luxembourg miracle is, to put it mildly, ambivalent. On the one hand the Belgian State welcomes the extremely positive contribution that the Duchy's banking sector makes to the joint balance of payments of th eBelgian-Luxembourg Economic Union (BLEU). On the other it tends to be deeply mistrustful of the effects of Luxembourg's strict banking secrecy laws and separate fiscal regime on its own banking system and its tax net.

There are no workable controls on currency movements across the long land frontier between Belgium and Luxembourg, and all the signs are that undeclared deposits, both personal and even corporate, represent a drain on Belgium. Defenders of the present position argue that Belgian francs deposited in Luxembourg a5hd deposited in Luxembourg accounts do not affect the overall "monetary mass" of the BLEU, but not so long ago the Belgian regulatory authority, the Commission Bancaire, was moved to warn Belgian banks operating in both States that it is a serious offence even to advise clients in Belgium of the advantages of depositing money in Luxembourg.

Conditioned by EMS membership

IRELAND

STEWART DALBY

BANKING IN IRELAND has been conditioned and is being transformed by the Government's decision just over a year ago to enter the European Monetary System while the UK decided to stay outside.

This has effectively ended Ireland's historic 150-year-old link with sterling, and meant that the central bank and the branch banks had a greater degree of control over interest rates.

Since March last year when the EMS started to operate, the central bank has become more interventionist in the banking system. It has laid down more stringent credit guidelines than it used to, and started to reform the wholesale side of the banking business.

Central bank officials have argued that a tougher stance has been necessary because of the greater discipline involved in being effectively part of a fixed interest rate structure, which is what Ireland has become by joining the EMS.

Before Ireland joined the EMS the punt was linked at parity with sterling, which meant that for all intents and purposes Ireland was as much a part of the sterling area as Livorpool or Wales.

Borrowers in Ireland had automatic access to what for them, was a vast reservoir of funds in sterling. Interest rates in Ireland, including those on Government bonds, had to stay close to those prevailing in London, or perhaps a ¼ to a ½ per cent better than those in London, if deposits were to be attracted.

The period immediately preceding membership of the EMS was a time of rapid expansion of the Irish economy. Part of this expansion was Government stimulated with public sector spending increased and easy credit available from the banks.

It lead by the end of last year to a huge balance of payments deficit on current account, which meant deflation became unavoidable. This, coupled with the discipline involved in the EMS, led to tighted credit. Before then the banks in Ireland did hectic business, as the table partly shows and made good profits from the easy credit policy. In 1978-79 for example credit grew by 36 per cent.

There are four main retail or "associated banks" as they are known. The largest is the Bank of Ireland. The other purely Irish bank is Allied Irish. The Ulster Bank is a subsidiary of Britain's National Westminster and the Northern Bank maintains a similar relationship with the Midland Bank.

The Northern and the Ulster Banks conduct about half their business in Northern Ireland and the UK and the rest south of the border.

Apart from the four main associated banks, which handle some 49 per cent of all retail or over the counter business, there are forty other non-associated banks. These range from retail banks to merchant banks and include some foreign banks like Banque Nationale De Paris and Bank of America.

Having an independent currency has meant expansion of foreign exchange business.

Two areas where the associated banks differ from the non-associated banks are interest rates and liquidity ratios. The associated banks operate as a controlled cartel. The four operate through the joint standing committee which fixes rates for all four. The liquidity ratios kept with the central bank also also differ for associated and non-Associated banks.

While profits soared ahead until the end of last year, the picture began to change this year.

Correct

Ireland had imposed exchange controls at the end of 1978. But the Bank of England did not find it necessary to impose controls against sterling going into Ireland and then possibly out again, thus creating a "Dublin gap." In view of the strength of sterling this has has turned out to be the correct decision.

Ireland hoped when it joined the EMS that the link with sterling would be maintained at parity. With sterling strengthening however, Ireland met its European obligations. Staying with sterling would have meant breaking the ceiling Ireland's pound is allowed within the EMS. So the link was broken.

With the exception of one day the Irish pound has stayed below sterling at one point touching 87p. There has thus been little pressure for holders of sterling or dollars to invest in Irish pounds either directly or through Irish gilts. The currency is so small moreover that there has been little speculation.

The comparative weakness of the Irish pound against sterling coupled with the repatriation of borrowings from abroad and a tigheter credit line from the central bank meant that money in Ireland was extremely tight for most of 1979 and the early part of this year.

The central bank decreed that to prevent renewed inflation, imports and pressure on the Irish pound, credit was not to increase by more than 18 per cent in 1979. Any bank exceeding this had to place special deposits with the central bank at punitively low interest rates. This year the guideline has been set at 13 per cent.

One result has been that it has become virtually impossible to obtain personal loans for things like car purchases, and very difficult indeed to get bank loans for houses. Personal lending is not supposed to rise above nine per cent, allowing lending for industrial purposes to go above the 13 per cent guideline.

PROFITS OF THE ASSOCIATED BANKS
(£m before tax)

	1974-75	1975-76	1976-77	1977-78	1978-79
Bank of Ireland	18.1	25.5	32.5	42.8	46.9
Allied Irish Banks	15.0	16.4	23.0	34.5	41.0
Ulster Bank	6.4	6.4	7.2	10.8	13.2
Northern Bank	7.8	8.9	9.4	9.2	11.1
TOTAL	47.3	57.2	72.1	97.3	112.2

Note: Bank of Ireland and Allied Irish Banks account to year-end March 31. Ulster Bank and Northern Bank use the calendar year.

Greece

CONTINUED FROM PREVIOUS PAGE

are now determined automatically, rather than by government decision, on the basis of the liquidity arising from deposits. Commercial banks are now obliged to deposit with the Bank of Greece a proportion of their deposits in foreign exchange as well as in drachmas.

This has particularly affected foreign bank branches, which traditionally have a high proportion of deposits in foreign currencies.

A prolonged bank employees' strike at the beginning of this year drew attention to the power of a small but stubborn trade union with about 35,000 members to all but cripple the country's monetary transactions.

The strike was called over working hours and promotion regulations, though pay adjustments were also brought in. It had adverse effects on trade and credits that will inevitably show in banks' next balance sheets. Among other effects were a substantial loss of deposits and excessive money circulation.

After the strike was over, drachmas 2.7bn in deposits flowed back to the banks in the second half of March. By April the situation had practically returned to normal, though there was still an enormous backlog of transactions to handle.

If anything, the strike also helped to emphasise the high cost of salaries as well as the limited automation services.

Greece's accession to the Common Market will compel Greek banks to think and act internationally. In the process, they will have to streamline their operations and give up many cumbersome practices. This will increase their competitiveness, putting them in a better position to service clients at home and abroad and join the Eurocurrency and other international markets.

Accession will inevitably spur Greek banks to enter such fields as foreign exchange markets, leasing systems, and even merchant banking for the first time.

It is a challenge which, in all likelihood, they will be able to meet.

Reuter

Threat to interest rate agreement

THE TIME-HONOURED system under which Austrian banks and credit institutions agree among each other what rates they will offer to depositors is in danger. The joint stock banks have given notice terminating the agreement with effect from July 1.

Not only the interest rate cartel is at issue. In the background there is the entire question of whether the country is "overbanked" with one branch for every 1,600 inhabitants.

It was the joint stock banks which pushed ahead with special vigour in search of the savings desposits of the small man. But this spring Dr. Heinrich Treichl, chairman of the executive board of Creditanstalt Bankverein, the largest Austrian bank, publicly wondered whether sufficient regard had been paid to profitability.

Had profit been the first concern, he mused, some branches might never have been opened, some credits might never have been extended, and some deposits might never have been accepted.

Savings

Not so long ago savings accounts were seen as the easiest and cheapest way for an Austrian credit institution to refinance itself. But the rise of interest rates, though it has been less drastic in Austria than elsewhere, has taken its toll. Last year the joint stock banks actually lost savings deposits as customers switched to more profitable term deposits or to fixed interest securities. Moreover, interest arbitrage caused funds to flow abroad.

The trend was much less pronounced in the cooperative sector, with a less sophisticated clientele. The savings banks did increase their savings deposits, but at a rate much lower than in previous years. The Raiffeisen group, which is firmly rooted in the farming population, barely felt the switch to other forms of savings.

So it is not surprising that it was the joint stock banks which took the initiative by giving notice to terminate the cartel. The immediate reason for doing so was their wish to have a free hand with the interest they can offer their clients to match the volatility of other rates in the market. Competition, already fierce on the aset side, would have to spread to the liabilities, they argued.

Should the cartel really be ended, all deposit rates would be free except the so-called

AUSTRIA

W. L. LUETKENS

"central rate" (Eckzins) payable on savings accounts with legal notice of deposit.

In practice these are accounts with free withdrawal, but not transferable by cheque. In their case the law says that failing an agreement interest shall be paid equivalent to half the nominal interest due on current issues of Government bonds.

Given the political aspect of the "central rate," there is a good chance that the cartel will be renewed for that rate alone which would please the run of the institutions in the co-operative sector, while giving freedom of movement to banks and others in the bigger league.

The affair does illustrate the fundamental division of the Austrian banking world into several groups with distinctly different interests.

Those differences have not been obliterated (and probably never will be fully obliterated) by the new regulatory Acts of last year which, potentially, turned all Austrian credit institutions into universal banks.

Last year's legislation, for instance, gave all but the smallest members of the co-operative sector the right to issue securities in their own name. It also freed the savings banks from the rule that except in the special case of Vienna only one savings bank should have the right to take deposits in any one locality.

The main groups are the joint stock banks, together with a dwindling group of private bankers; the savings banks; and the Raiffeisen banks.

The joint stock banks are universal banks on the German model, engaging in every form of banking business and acting at the same time as holding companies for what by Austrian standards are industrial empires.

It should be noted here that the joint banks behave like private institutions, though the State is the majority shareholder of the two largest, Creditanstalt Bankverein and Oesterreichische Laenderbank.

Historically the savings banks were intended to channel the small man's savings into mortgages and local government loans. They now offer the full range of retail banking services, and the bigger savings banks, especially the two institutions in Vienna, Zentralsparkasse and Erste Oesterreichische, have grown into universal banks in all but name.

It may be supposed that in the argument about interest rates their instincts have been on the side of the joint stock banks.

Raiffeisen is a very special case. The farmers' banks are part of a large organisation which provides cooperative marketing and purchasing facilities for the rural population. Like the savings banks, the Raiffeisen banks have grown into a network of institutions providing the full range of retail services.

Each of these groups has an international presence: the joint stock banks and the large savings bank in their own right; the rest of the savings banks and the Raiffeisen sector through umbrella banks of their own, Girozentrale and Genossenschaftliche Zentralbank respectively.

Laenderbank is in the process of acquirin ga 40 per cent share in Banque Internationale a Luxembourg, with the Lambert group as its partner. Creditanstalt intends to open a branch in London this year, as does Girozentrale.

All of these institutions, as well as the two large Viennese savings banks, have repeatedly played a part in international loan syndicates.

Initially the Austrians made their international appearance through consortium banks that took account of their relatively small size. But consortium banking has lost some of its attractions now that the larger partners prefer to go into business on their own, often competing with the consortium of which they are part. Some difficult decisions may therefore have to be made in Vienna.
have been keeping a close watch on the foreign business of their banks, preferring to keep a fairly tight hold on its expansion.

Current account

In part they want to cushion the country from the impact of volatile international interest rates and conjunctural cycles.

Moreover, with a current account deficit expected to reach AS 37bn (about £1.3bn) this year they want to reserve the creditworthiness of the country for balance of payments borrowing, rather than other purposes.

Since both the Miniser of Finance, Dr. Hannes Androsch, and the president of the Austrian National Bank, Professor Stefan Koren, are firm believers in a hard currency policy, the cushioning has not been easy to achieve and will continue to pose problems.

The argument about the interest cartel demonstrates that most clearly.

Reassuring transition

YUGOSLAVIA

ANTHONY ROBINSON

THE SMOOTH transition to collective leadership which followed President Tito's illness and death has been as reassuring to bankers as to everyone else. Yugoslavia, they have decided, is not likely either to split into its component parts or to be invaded by Soviet tanks in the foreseeable future. That leaves Yugoslavia's economic and financial problems as their main cause for concern.

It is now the conventional wisdom that keeping the economy on an even course will be one of the most important challenges facing the collective leadership.

Politically the problem is ensuring that the six republics and two autonomous provinces feel they are getting an equitable share of the national economic cake. Economically the problem is ensuring that local ambitions and rivalries do not lead either to wasteful duplication of investment, or diversion of resources to prestige projects of doubtful economic value.

Inflation is now a major problem. Officially retail price inflation was around 22 per cent last year, but ordinary Yugoslavs feel that 30 per cent would be closer to the mark. Wages and salaries barely kept pace with inflation, but consumption rose and investment stayed at unsustainably high levels.

The net result was an overheated domestic economy which continued to suck in imports far faster than exports leading to a record trade deficit of \$6.5bn and a balance of payments current account deficit of over \$3bn.

The overall economic strategy this year is aimed at GNP growth of around 5 per cent compared with 6 per cent in 1979 and even higher the year before that. At the same time Yugoslav enterprises are now under pressure from the republics to increase their exports and cut back on imports.

Under the Yugoslav system each of the republics has responsibility for its own balance of payments. They are supposed to keep its deficit to within limits agreed at a federal level. Early this year the republics agreed that this year the balance of payments deficit must be cut to \$2bn.

That was the easy part. The difficulties came when the republics spending plans were added up. The sums showed that a \$5bn deficit would arise if all the plans were carried through. But no agreement has yet been reached on the projects which each republic will have to sacrifice if the overall target is to be achieved.

Enterprises have been set the target of achieving a 6 per cent rise in export volume this year while keeping imports at last year's unsustainably high level. This requires reversing the trend of stagnant or declining export volume which has contributed to steadily rising deficits over the last four years.

The new five year trade greement with the EEC will help to boost exports, as will the creation of a new export credit bank. But Yugoslavia will continue to need considerable foreign funding if it is to maintain plans for economic growth in the 1980's which include large scale energy and raw material development schemes.

Last year Yugoslavia managed to renegotiate the terms on some of its expensive, and fragmented, earlier borrowings. But bankers were not very happy about the operation and have reportedly not shown much enthusiasm for approaches made by five or six Yugoslav banks so far this year.

According to a recent study by Bankers Trust the Yugoslav current account deficit can be expected to continue at between \$1.5 and \$2.5bn a year over the next decade, implying an estimated average annual gross borrowing requirement of between \$2.5bn and \$3bn This would see the external debt rising at about \$2bn a year.

Given Yugoslavia's potential for growth, and its political and strategic importance, this should not present any special problems. But if Yugoslavia is to get the kind of terms it wants bankers suggest that Yugoslav banks will have to coordinate their approach much more successfully than they have done so far.

One banker commented that the Yugoslav banks seem to be much better at competing amongst themselves for funds than combining to fight for better terms from potential lenders.

While this fragmented approach continues Yugoslavia looks like having to pay higher margins and commissions than either its credit worthiness or other factors justify.

PORTUGAL MOVES INTO THE FUTURE

The sabilisation programme that was introduced over the past two years has resulted in a clear turn-around in the balance of payment. From \$1.5 billion in 1977 the current account has registered in 1979 a surpus of about \$150 million. This was accomplished through the introduction of a "crawling peg" exchange rate system, a ceiling on salaries' increases, a monetary programme to control total domestic credit and an increase in interest rates. The substitution effects between non-traded and traded goods have been quite strong and Portugal has been able to maintain a gross domestic product growth rate comparable to the OECD average (3.7 per cent).

But the policy of dearer and rationed money has brought about a slowdown in investment activity, both public and private. That is one reason why the present Government considers the turn-around in fixed investment a top priority. The 1980 Plan forecasts a 6 per cent growth rate for fixed investment. Public sector investment will increase substantially. However, most of the effort towards increasing exports and creating employment has to come from the investment of private firms.

The big push in investment is also needed to create new capacity—since the existing one is almost fully utilised—to accelerate GDP growth rates in the future, to internalise the benefits of technological transfer from abroad and, in general, it is indispensable for generating the change in productive and technological structures badly needed for the forthcoming entry into the European Economic Community.

Several measures have already been taken or are about to be taken to promote domestic and foreign investment. The G overnment is seeking to restore international confidence by honouring nationalisation debts. The first group to be paid will be foreign capital. Studies are almost complete on the full value of foreign property nationalised. The Government is also studying the conditions under which the resulting bonds can be mobilised for investment purposes. Interest will be backdated, though not immediately paid in full.

The Goverment is also preparing a simple non-discriminatory system of incentives for fixed domestic and foreign investment. This will comprise a package of financial (reduction in interest rates) and tax incentives (tax reductions). The level of incentives will depend on the project's contribution to solve present Portuguese problems. These will include the contributions to further economic growth, to the balance of payments, to increased employment and to correct regional imbalances. Financial incentives has started to be implemented since last year. These had a cost of about Esc 5 billion to the Panco de Portugal. The Government has also given quite substantial benefits for several important foreign direct investment projects.

In the public sector, the Government is preparing plans for some important projects. The sectors selected are in the energy field (four new hydro power stations in the north), the steel industry (adding another 1 million tons to capacity), mining (to include the development of pyrites in Alentejo), transporation (renovation of the air fleet, construction of small ships and improvement of the road, railway and urban mass transit systems), health and education.

The role of foreign capital may be particularly important in all this process, having in mind its contribution to fill the gap in domestic savings as well as the deficit in the external current account, expected for 1980. This will be due to the increasing oil prices and, to a lower extent, to a more expansionist economic policy.

But, is Portugal safe enough for international investors? Which guarantees can it offer to its creditors

PORTUGAL'S OFFICIAL FOREIGN DEBT
(End of period)

US\$ million Items	1977	1978	1979
1. Public Debt	807	1,509	2,105
(a) Direct	319	894	1,276
(b) Private, with government guarantee	488	615	829
2. Bank of Portugal	1,681	1,924	1,616
3. TOTAL	2,488	3,433	3,721
4. Official Foreign Debt / GDP x 100	15.9	19.3	18.4
5. Official Foreign Debt / Official Gross Foreign Assets x 100	57.4	59.1	34.9

First of all one has to remember that modern Portugal has always behaved impeccably as far as honouring its compomises is concerned. This was true even in the more difficult years of large deficits in the balance of payments. Nonetheless, it will be convenient to characterise, briefly, the situation of the Portuguese economy, relating to its capacity to service its foreign debt.

Portugal's foreign public debt, including private debt with Government guarantee, has remained within perfectly acceptable boundaries. It was only in 1977 that the country began to revert increasingly to this type of financing. Before that, in 1974/76, Portugal used its gold and foreign exchange reserves and allowed the monetary institutions to increase their net foreign liabilitieis. If one adds to that the foreign debt of the Bank of Portugal, the situation does not change substantially.

As a matter of fact, the official foreign debt outstanding, including the foreign debt of the Bank of Portugal, accounted, in 1979, for a lower share of GDP (18.4%) than in 1978 (19.3%) and is widely covered by official gold* and foreign reserves, which, at the end of 1979, amounted to \$10,654 million (with gold value at market prices, on the basis of the average quotation on the London market for the fourth quarter of 1979). This is almost three times the \$3,721 million of the official foreign debt. This comfortable situation is the result of the increase in the price of gold in world markets and of the recent turn-around in our current account.

Summarising: figures for Portugal's foreign debt look rather good by current international standards. This is particularly true when we compare its situation with that of many other countries now borowing in international capital markets.

*Official gold reserves amounted to 688 tons at the end of 1979.

BANCO DE PORTUGAL
RESEARCH & STATISTICS DEPARTMENT

Presence of foreign banks proves helpful

SPAIN

ROBERT GRAHAM

BEFORE THE end of the year a total of 20 foreign banks should be operating in Spain. Two years ago there were only four, all of which for differing historic reasons had been active in spain for some time. The admission of foreign banks, under a decree approved in June 1978, is one of the few practical signs of the Government's avowed intention of liberalising the banking and financial system to bring Spain more into line with European Community practice.

Admission has been selective, not free, and the authorities have applied restrictions on the newcomers' activities. Nevertheless the presence of leading international banks inside the Spanish banking system is already having a catalytic effect—and despite strong objections from the more conservative Spanish banks the wisdom of the admission has been generally accepted.

Initial fears that major international banks with more sophisticated techniques would muscle in on traditional stamping grounds, like peseta business and the granting of guarantees, have proved unfounded. This is mainly because the 108 Spanish commercial and industrial banks continue to enjoy protection. For instance, foreign banks' peseta dealings cannot exceed 40 per cent of their assets inside Spain, which for most of them effectively means an upfront fee of Pt.750m ($5m) to be paid to set up operations. For their part the foreign banks, limited to three branches, have never seriously considered expensive initial investments in retail banking.

The new foreign banks have preferred to concentrate initially on the wholesale end, and on servicing existing clients. The first batch of ten foreign banks, admitted last year, helped raise the total share of foreign banks in banking system deposits by about one per cent to just over two—the same applies to credits. Thus the overall share of business remains small, and will continue so while restrictions are in force.

One interesting example of where the foreign banks have acted as a catalyst is in stimulating an acceptances market on the stock exchanges. Exploiting loopholes in existing legislation, a number of foreign banks decided late last year that it was worth trading acceptances on the Madrid Stock Exchange.

The first reactions of the larger Spanish banks was negative and indeed the largest, Banesto, tried to block the move. But the Ministry of Economy stepped in to lend its support to the initiative and now the idea has taken root. There have been some gripes, in particular prompted by the application of a turnover tax to loans.

The banking system is divided between the commercial and industrial banks, which are privately owned, and the savings banks, the cajas, which are privately run but are non-profit making, serving—in theory at least—a socio-economic function. Side by side with these two groups are the State-run specialised credit institutes under the aegis of the Instituto de Credito Oficial (ICO) that provide medium and long-term finance to industry, agriculture, local government and housing.

Higher financial costs and pressures on profits, coupled with a continued official control of a sizeable portion of interest rates, have created a fairly clear division of activity. The commercial and industrial banks are concentrating on short-term lending. The savings banks, which account for some 30 per cent of total deposits in the banking system, continue to be used by the authorities as a major source of funds—just over 60 per cent of all savings bank deposits are channelled to officially directed investments either in bonds, Treasury bills or credits.

Nominees

The sharp decline in stock market values plus deterioration of cash flow positions of industrial companies have caused problems. One remedy has been a general levelling off of new investment. More important, the industrial banks have begun to opt for multipurpose functions, moving more into commercial banking to spread the risk. Within the next five years it is unlikely that any of the existing industrial banks will still refer to themselves as such.

Nevertheless the particular feature of Spanish banking—the very substantial control of industry and the service sectors by the private banks—will remain. Banks are strongly linked to industrial concerns both through equity participation and boardroom representation. Quite often a bank's own share participation may be small, as in the case of the powerful privately run utilities, but its real control is substantial through the practice of acting as nominees for shareholders who have deposited shares with it.

"The banking system as a whole remains dominated by the so-called "Big Seven"—Banesto, Central, Hispano, Bilbao, Vizcaya, Santander and Popular. These banks account for 52 per cent of commercial bank lending and 58 per cent of commercial bank deposits. Within this grouping there are really two divisions, with Banesto, Central and Hispano at the top and then the rest.

Since 1977 these three leading banks have grown considerably in size through buying up small and medium-sized banks. The most notable absorptions have beeng Central's takeover of Iberico—owned by the Fierro family—and Banesto's takeover of Coca and its 17 per cent purchase into Banco de Madrid. The latter two moves have caused enormous problems of absorption for Banesto, largely because the acquisitions were ill-prepared.

Another noticeable trend within the banking system is for reported profits to decline and fail to match inflation. An analysis of bank results made by the Bank of Spain last year showed that in 1978 bank profits rose overall only 1 per cent. This compared with an overall increase in 1976 of 19 per cent. The study also showed that during 1978 there was a significant rise in bank losses, up from Pta 682m to Pta 4.1bn. Losses in 1979 are expected, however, to have risen further.

The principal pressures on profits come from the need to set aside increased sums for doubtful debts and equity write downs, higher costs and higher personnel expenditure. The most remarkable feature has been the increase in adjustments to take account of doubtful debts, losses in portfolio assets and amortisations. These adjustments follow new and stricter rules from the Bank of Spain. In the case of the Big Seven banks these adjustments were reckoned for 1979 to be over Pta 20bn.

It is reckoned that the healthier banks have between 1.5 per cent and 1.8 per cent of total risk assets tied up in doubtful ful debts. The aerage for the banking system as a whole is nearer 3.2 per cent.

Hospital

Last year the Corporacion Bancaria—the "bank hospital"—was created by the Bank of Spain in conjunction with the commercial and industrial banks. This was designed to take over and administer those banks that had accumulated such financial problems as to be wholly unattractive for a commercial rescue operation. Four banks were absorbed in this way, plus subsidiaries. But the mechanism was unsatisfactory since insufficient funds were available to restore successfully the troubled banks, which thus risked staying permanently in hospital.

Since April, however, a new mechanism has been evolved. This is an enlargement of the existing deposit guarantee fund. Banks will now be obliged to contribute annually on a Pta 1 per 1,000 basis, with the Bank of Spain matching the total contribution from the banks. In this way some Pta 12bn will be available this year both to guarantee individual depositors up to Pta 750m plus providing funds either for a bank to refloat itself or for another bank to help in the operation—so avoiding the need to go into hospital.

The first case of the fund being applied has already arisen with the Lopez Quesada Bank. The fund will underwrite a new capital increase but on the basis that the bank first reduces its existing capital.

The new system should also help avoid a practice which had become increasingly prevalent. To prop up ailing banks, the Bank of Spain had been obliged to provide substantial credit lifelines. Controlling the bank system has absorbed a good deal of the authorities' energy. It is hoped that more attention will now focus on developing a more sophisticated capital market.

The main drawback here is the conditioning of the system, through long habit, to the "privileged circuits." These are the percentages of funds which the banks are obliged to set aside for State-directed investment at soft or "privileged" rates. In other words, the biggest borrowers—such as INI, the State holding company or the telephone monopoly Telefonica—can rely to an important degree on captive lenders. Moreover, because the banks obtain a low return on funds so employed they have to recoup this on their free funds. Interest rates are thus subject to a double distortion.

Post-revolution development

PORTUGAL

JIMMY BURNS

THE UNPREDICTABLE nature of Portuguese politics in the six years since the revolution has nowhere been more mirrored than in thet fate of Portugal's banking sector.

Banking was one of the sectors of the Portuguese economy which the revolution almost immediately claimed for itself: the State took effective control of over 95 per cent of all banking activities, making Portugal's nationalised sector the largest and potentially thet most powerful in Western Europe.

Today, attempts by Portugal's recently elected Centre-Right coalition to open up banking to the private sector have again generated widespread opposition among the Left wing, indicating that controversy in the sector has not disappeared, even though Portuguese banks in general have settled down to a period of normality after the initial disruption.

That the banking sector remains such an emotional issue in Portugal stems from the particular nature of the Portuguese economy before the revolution.

During Portugal's half century dictatorship (finally overthrown on April 25, 1974), banks grew to enjoy a particularly privileged position.

The banks were generally family run and were part of conglomorate empires that had wide ramifications in industry, the servcices, and agriculture. The sector had to a large extent come to symbolise the social inequalities which then existed in Portugal.

Privelege

This explained why nationalisation was so widespread, and, for a brief period, extreme. During the height of communist influence in 1975, bank employees took over boardrooms, forcefully expelled managers, and mocked banking secrecy by divulging confidential statements to the world's press.

Since the end of 1975, however, communists have been purged from positions of influence and at the same time a new sense of order and discipline has been established. Plans to transform nationalised banks into specialised institutions in charge of specific sectors of the economy have been dropped.

The sector has remained highly centralised, however, and poorly diversified compared to other western European countries. Three foreign banks: Banco do Brasil, Bank of London and South America, and Credit Lyonnais, survived the revolution, but their present day presence remains small in terms of market share.

They have been primarily concerned with financing trade with their respective countries, and are subject to the same rules and regulations as the nationalised banks.

The Portuguese banking system is largely characterised by the power and influence of the Bank of Portugal.

The Direccao Cordenadora de Instituciones do Credito is a special department within the Bank ,which was set up in 1976 to supervise the running of individual banks including budget-ing and accuracy of reports.

The department also tries to unify certain aspects of common utility such as standardisation of cheques, co-operation in computer reading, and distribution of branches.

Monetary policy has given the Bank of Portugal unique powers in controlling credit expansion and setting the re-discount rate. The Bank also pegs the value of the escudo and controls foreign exchange.

Some Portuguese bankers complain about the extent of centralisation which exists in Portugal, although they admit that a degree of liberalisation has worked itself into the present system.

Fairly strict guidelines are laid down by the Bank of Portugal but credit ceilings continue to be decided on a bank-by-bank basis. In order to encourage some competition, the nationalised banks are no longer committed to unified advertising. The larger ones like the Banco Portugues de Atlantico have been encouraged to extend their operation and open branches abroad.

Nevertheless competition is limited by the system. The capital market in Portugal still has a very narrow base. The bulk of Government debt is directly with the Bank of Portugal. A substantial proportion of bonds issued by the Government are at non-market rates (7.5 per cent) which the banks and the Bank of Portugal are obliged to purchase.

The Bank of Portugal also dominates the existing inter-bank market. Effectively there are two markets. The first is for 24-48 hour funds, the rates for which are fixed by auction. This is the principle means of absorbing short-term liquidity.

Then there is a second market which involves the Bank of Portugal selling off bonds from its own portfolio at discounts determined on the day. Lacking in the present system are short-term Treasury bills.

The growth of the capital market is expected to be stimulated by the admission of private enterprises into the system. Nevertheless, dramatic overnight change is not expected, at least not until after the next general election in October which the Centre-Right Government is again expected to win.

Until then any attempt by the Government to open up key sectors of the economy such as banking to the private sector is expected to come up against the legal obstruction of Portugal's socialist constitution. This still defines the nationalised banks as one of the "conquests" of the revolution.

Decree

It is significant that the present Government's decree permitting the operation, alongside state-run institutions, of private banks is phrased in general rather than specific terms. It is assumed moreover than when and if more detailed legislation is produced it will be similar in scope to the model introduced in Spain last year.

The Spanish foreign banking law includes a large entry fee and restrictions on local currency dealing and the amount of business in profitable guarantees.

As a result foreign banks are unlikely to feel encouraged to establish themselves right away. They will prefer to mark time and in some cases put a foot in the door without walking straight on.

One can already see this in the decision of some foreign banks, namely Chase Manhattan, Citibank, and Manufacturers Hanover to set up representative offices in Lisbon over the past year.

Moreover, private enterprise has been showing an increasing interest in the possibilities offered by the legalisation last year of investment companies. These will be entitled to grant medium and or long term credit but will not be able to accept short term deposits.

Although the law is still looked upon by investors as too restrictive it has nevertheless led to the formation of a number of mixed groups made up of Portuguese businessmen keen on re-establishing themselves in post-revolutionary Portugal.

These groups are now on the sidelines waiting for further legislation.

Growth in real terms despite inflation

ISRAEL

ILAN BARZEL-BRAZIL

ISRAEL'S banking system again showed satisfactory growth in 1979, despite a rate of inflation which almost doubled to 111 per cent.

Total domestic banking assets grew durin gthe year by 12 per cent in real terms, and have risen by approximately 2.5 times in the period 1974-1979.

Double digit inflation has existed in Israel since the beginning of the decade, so the banking system had evolved a variety of channels through which it was possible to hedge against the accelerated inflation of 1979.

Medium-term savings, which are linke dto the cost of living, increased by about 123 per cent. Short-term domestic deposits, denominated in foreign currency, more than doubled.

These two groups amounted to some 90 per cent of the public's total deposits in the banking system in 1979. Five years ago, in 1974, the relative weight of these two types of deposits was about 66 per cent.

In recent years, the banking world has developed two alternatives to time deposits, both in domestic currency. Certificates of deposits were first introduced in mid-1978 and within a year attained the same volume as time deposits.

Liquidity

By the end of 1979 the amount of CDs reached I£14.5bn. or 50 per cent more than total time deposits. Interest rates on CDs often matched, and even surpassed, those on time deposits, despite CD's higher liquidity.

The alternative instrument that inflation has made popular is the medium-term deposit linked to the cost of living. The deposit is closed for an average of 2½ years, and in return is fully linked to the cost of living index, plus 6-7 per cent fully linked interest.

It is hardly surprising that the demand for these deposits tripled during 1979, and their quantitive importance is now similar to that of CDS.

At the beginning of January 1979, the overdraft rate stood at 35 per cent, while expectations for inflation ranged between 50-70 per cent. The central bank, which directs monetary policy, pressed the commercial banks not to raise their interest rates, on the assumption that cost factors were behind continuing inflation.

Furthermore, it imposed a freeze on foreign exchange borrowing, in an attempt to minimise the negative effect such borrowings had on maintaining the Israeli pound at an unjustifiably high exchange level. *The freeze, initially imposed* for a period of two months, was replaced by a 12 per cent added cost on borrowing in foreign exchange, so the relatively low price of non-linked credit, and the restrictions on foreign currency borrowing, created an excess demand and a shortage of liquidity in commercial banks.

The resulting liquidity deficits in the commercial banks multiplied five-fold between the end of January and the end of March 1979, to reach a level of I£4.5bn.

In allowing the commercial banks to raise interest rates, the central bank imposed a ceiling on the volume of non-linked domestic credit. This measure was reinforced by an increase in the fines on failure to meet liquidity requirements.

Commercial banks are divided by the Bank of Israel into four groups based on the size of their deposits. The first group includes Leumi, Hapoalim and Discount. These three account for some 90 per cent of all Israel's banking assets.

There is a significant difference in the involvement of the three groups in industry. Discount Bank is a 90 per cent owned subsidiary of the IDB Bankholding Group, which also controls two major industrial holding companies and has 25 per cent of CLAL (Israel) Ltd., Israel's largest private sector holding company. Bank Hapoalim is also believed to hold about 25 *per cent of CLAL,* but otherwise is not significantly involved in industry.

Foreign exchange

Foreign exchange operations, which had shown a rapid growth since the 1977 liberalisation measures, advanced further in 1979.

Deposits denominated in foreign currencies, which were 50 per cent of the total in 1975, reached 62 per cent, and for the first time total domestic assets in foreign currency exceeded those nominated in local Israeli pounds.

In company with many of their European counterparts, Israeli banks have been looking to the U.S. retail banking market for expansion.

The Leumi Group was for many years the sole representative, but today Discount Bank, Bank Hapoalim and most recently Mizrahi Bank, have all established themselves in the U.S. The Leumi Group recently added to its New York retail capability by purchasing 13 branches of Bankers Trust.

Overseas assets of Israeli banks are not included in the figures given in the table. They amounted to an estimated I£215bn on December 31, 1979.

A major issue, particularly in academic circles, is the "real" profitability of the commercial banks, whereas the three major groups had a reported 128 per cent increase in earnings at the attributable level and the smaller banks did even better, it does appear that there was a reduction in shareholders' equity.

The actual size of this reduction depends on a number of factors, which are difficult to estimate, such as the behaviour of the values of bank property—none of which came to the market.

The Controller of the Banks' estimates show that in 1979 a 2.7 per cent "real" loss was made by the three banking groups, *against* a 6.5 per cent "real" profit in 1975.

The current economic outlook must remain one of uncertainty. While the Budget for the 1980-1981 financial year could cut the inflation rate, most observers do not believe that year-on-year inflation will be significantly different from 1979. This view has been strengthened by the announcement of a 48 per cent increase in the money supply (M1) during the first quarter of 1980.

● *Israel is in the process of converting its currency from Israel pounds to shekels. Full implementation of the change-over has been delayed until October because of technical problems.*

HOW THE TRENDS COMPARE

	1974	1975	1976	1977	1978	1979	% growth (1) 1974-9	% growth (2) 1974-9
	(I£bn)							
Total assets	82	119	173	326	548	1207	71.2	14.1
In foreign currency	35	48	6	150	265	609	77.0	17.9
In I£	47	71	107	176	283	598	63.3	10.8

(1): Compound annual.
(2): Compound annual deflated by Consumer Price Index.

Source: Bank of Israel

Foreign banks encouraged

TURKEY

METIN MUNIR

PRIME MINISTER Suleyman Demirel's Government has moved to open to outside competition the inward-looking *banking system in Turkey that* is a combination of State and private enterprise. One of the measures contained in Free Enterprise — Mr. Demirel's comprehensive economic package of last January — is to allow foreign banks to open branches in Turkey. *Citibank,* one of the world's largest banks and one of Turkey's biggest creditors, has applied to open a branch. Other Western banks which have representative offices in Istanbul Wells Fargo, Deutsche and Dresdner banks and Banca *Commerciale* Italiana), said they were not planning to enter the Turkish market just yet. But if the example of Citibank, which is virtually certain of gettting the go-ahead from the Government, proves lucrative other Western *banks are expected to follow* suit.

Of the 44 banks operating in the country just four are foreign. The Arab Turkish Bank was founded in 1977 as a partnership between Turkey, Kuwait and Libya. The three other foreign banks were founded during the Ottoman era. They are the Ottoman Bank, which is the biggest, Holantse Bank Uui and Banko di Roma.

Banking regulations do not *allow banks to lend or borrow* foreign currency deposits, and banks that are allowed to have foreign currency cannot use arbitrage. The Turkish capital market is insignificant.

Most national banks have their *headquarters in Istanbul,* the country's centre of business and industry. The central bank, which plays a regulatory role in both foreign exchange and foreign trade operations, is in Ankara.

The central bank is the issuing bank. It acts as financial and economic adviser, fiscal agent and treasurer to the Government, as well as implementing monetary and credit policy. In consultation with the Finance Ministry and with the approval of the Government the central bank establishes the parity of the Turkish lira. It fixes the discount rate—currently 14 per cent—and controls the volume of credit.

In recent years the central bank has become politicised. Until 1978 governors of the central bank worked undisturbed by the frequent government changes and were generally career civil servants. This has changed since the sacking of Governor Cafer Tayyar Sadiklar by Mr. Bulent Ecevit, the then Prime Minister, in 1978. Mr. Demirel is now preparing to sack Mr. Ismail Hakki Aydinoglu, the present Governor. Mr. Aydinoglu has obtained court backing to keep his position, but he may have difficulties and the fact remains that the central bank is as prone to be affected by winds of *political* change as *all* other government agencies.

Controls

In Turkey banking is strictly controlled by the Government, which has the authority to establish interest raes and determine the areas in which credits are advanced. Recently at the bebest of the International Monetary Fund (IMF), the Government has increased bank lending, time time deposit and Government bond rates as well as the central bank's discount rate and has provided additional interest premium for time deposits opened by expatriate Turks in foreign exchange. These rates are currently being reviewed further to compete with *infla-ion, which* was over 80 per cent last year and will probably go beyond 100 per cent this year.

Credits are scarce and expensive and getting more so with the tightening control on money supply imposed by the central bank in accordance with IMF limits. Interest on medium term credit is 22 per cent and bonds offer up to over 40 per cent interest a year.

The scarcity of credit has led many large private companies to seek control of the commercial banks. Of the 24 commer-*cial banks nine are now con-*trolled by family-owned groups. The Sabanci brothers control Akbank, the second is biggest commercial bang, and have a substantial minority interest in Turkiye Garanti bankasi, the 5th largest at the beginning of *1979.*

Garanti is controlled by Koc, the country's biggest industry conglomerate dominated by the Koc family which is a newcomer to the banking scene. Yapi Ve Kredi Bankasi, the third largest is reported to have been won by the Cukurova industry group which also controls Pamukbank, in the top ten.

Apart from the obvious advantages of owning a bank, thet law permits banks to open unlimited credit lines to their parent companies while credit to others is limited to 25 per cent of the bank's paid-up capital and legal reserves.

An executive degree published in August 1979 tried to wrest control of the private banks from families and private groups by restricting their equity to 30 per cent of the total. However, the degree is unlikely to win approval from Parliament, which is dominated by Right-wing parties. More private banks are thus expected to be acquired by the aggressive industry and trade groups.

Banking for the individual is *not a developed service. Over-*drafts are illegal and credit cards are not widely used. Even cheque books are not common. Credits are channelled by Government institutions into areas "fruitful to the economy."

TURKEY'S TOP BANKS

	Consolidated assets (TL bn)	Profits (TL m)
Turkiye Is Bankasi	116.8	707.6
Akbank	66.7	452.5
Yapi Ve Kredi Bankasi	56.7	127.8
Turk Ticaret Bankasi	24.6	242.0
Turkiye Garanti Bankasi	13.5	4.6

UK newsprint industry struggles for survival

BY WILLIAM HALL

THE COLLAPSE of the brave plan by Wiggins Teape and Consolidated Bathurst to build a £100m newsprint mill at Fort William in Scotland has again focused attention on the uncertain future of newsprint production in Britain.

Britain is the third largest consumer of newsprint in the world. The U.S. uses around 10m tonnes a year, Japan 2.5m tonnes a year and Britain 1.4m tonnes. The Soviet Union, West Germany and Canada consume another 3.5m tonnes between them. These six countries account for over two-thirds of the world's annual consumption of 25m tonnes or so of newsprint.

In spite of its impressive position as a user of newsprint, Britain's domestic newsprint industry is struggling for survival. There are few who give much for its chances unless the Government decides that it wants to keep the industry alive. The story of the Fort William project is hardly encouraging.

Ten years ago Britain was producing over half the 1.5m tonnes of newsprint it then consumed each year. In 1979 when British newsprint machines were running flat out, Reed and Bowater (the only two still left in the game) produced a mere 364,000 tonnes.

During the past decade the newsprint market in Britain has stagnated — fluctuating between 1.3m tonnes and 1.6m tonnes a year. The two domestic producers have been losing money for years, and Bowater, in particular, has made little secret of the fact the time is fast arriving when it will have to cease making newsprint in Britain.

Bowater produces around two-thirds of Britain's domestic output, contributes £35m per annum to the balance of payments (by displacing imports) and uses some 330,000 tonnes of home-grown timber — a significant proportion of the country's annual timber production.

Bowater's UK newsprint operations are a drop in the ocean by comparison with its huge North American plants. It ranks among the top two or three newsprint producers in the world, and makes more than seven times as much newsprint abroad as it does at home.

The closure of its main British newsprint mill at Ellesmere Port would cause no major supply problem. Bowater could easily supply the British market from its Calhoun mill in Tennessee, which is the largest in North America.

For Reed Paper, which uses a high proportion of waste paper in its UK newsprint production, the case for closure is not so clear cut. Reed owns a string of British newspapers and has an interest in maintaining a local source of supply as a precaution against overseas strikes. In addition, its Aylesford, Kent, newsprint machines are an integral part of that site —one of the largest papermaking sites in Europe—and their closure would upset the balance since it would leave excess generating capacity.

However, even Reed, which built itself up on the profits of its original newsprint operation in Kent, will not always be prepared to pour good money after bad maintaining newsprint production in the UK. The time may not be far off when Britain has to import all its newsprint.

For years successive Governments and newspaper publishers have paid lip service to the need for an indigenous newsprint industry. Apart from providing a useful cushion against overseas strikes it is important in times of international crisis when imports may be cut off, they argue. But British publishers are not prepared to pay a premium price for the privilege of buying home-made newsprint, as Bowater found last year when it tried to raise its prices about the marekt rate.

Take any other major newsprint market in the world and the domestic industry is in a much healthier state than it is in Britain. Japan produces virtually all its own newsprint, while over half the American and West German newsprint consumption is met by imports, both countries are investing heavily in new capacity to reduce their dependance on foreign suppliers.

According to the latest survey of new projects carried out by the Food and Agricultural Organisation of the United Nations, West German newsprint capacity is intended to rise by over 50 per cent between 1978 and 1983. In the U.S. capacity is being increased by over a quarter.

By contrast, Britain is not investing in new capacity and its newsprint machines are so old that they are unsuitable for producing large quantities fo paper for offset litho printing, one of the few growth areas in the British newsprint market. Nevertheless, the machines are better than many others. Dr. Ingram Lenton, Bowater's UK chief executive, describes them as at the "top end of the second division." Certainly there are economies of scale in having large modern machines capable of producing 150,000 tonnes per annum. But their absence is not the real reason for the decline of the industry.

BRITAIN'S EIGHT MACHINES

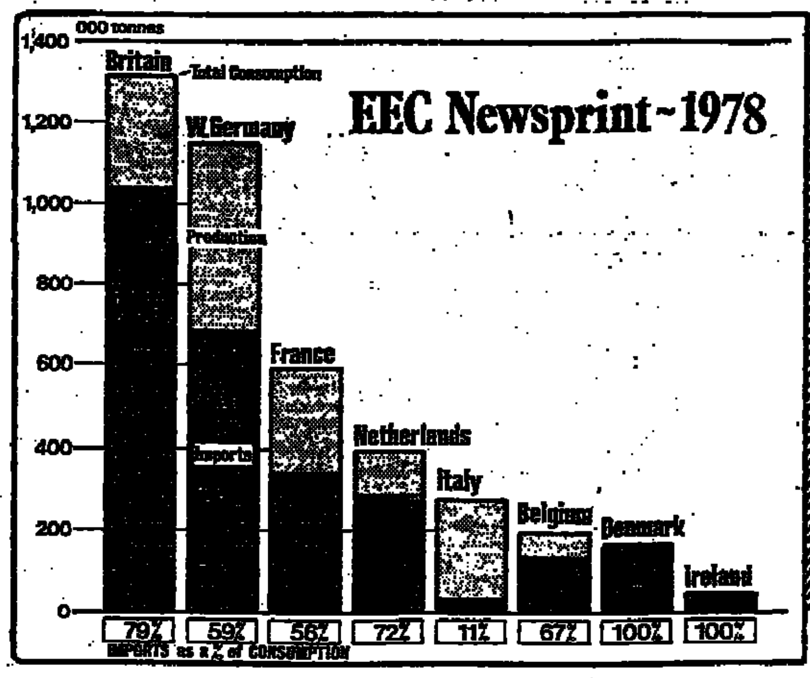
Albert E. Reed, founder of Reed International, was the father of the UK newsprint industry.

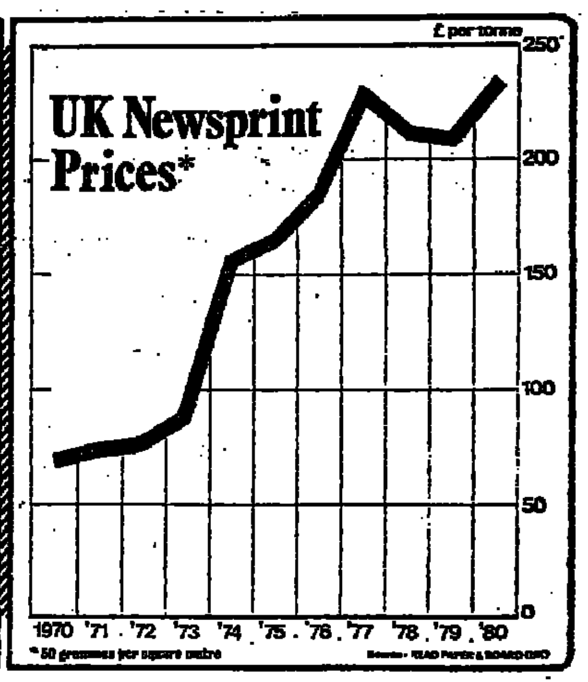
Reed built his first newsprint mill in 1894 at Maidstone in Kent. Bowater and others soon followed.

Until 1970 there were five domestic producers of newsprint supplying over half the UK market. However, only Reed and Bowater are now left.

Bowater is the bigger of the two and operates two mills at Ellesmere Port, Cheshire, and at Kemsley in Kent. There are three machines with a total capacity of 180,000 tonnes per annum at Ellesmere Port and two machines at Kemsley, with a combined capacity of 40,000 tonnes per annum. Bowater employs close to 2,000 people in newsprint production.

Reed employs 300 at its two newsprint mills at Aylesford and Gravesend, Kent. The two machines at Aylesford can produce 100,000 tonnes and the one machine at Imperial Mills, Gravesend, 55,000 tonnes. Bowater relies largely on domestic timber for its newsprint production but Reed mainly uses waste paper.





The main problem is that its raw material and energy costs are considerably higher than those of its main competitors, the Scandinavians and the Canadians. According to Dr. Lenton, British wood costs $120 per ton of pulp. This is double the cost in eastern Canada which contains a quarter of the world's newsprint capacity and is 20 per cent higher than in Sweden.

Paper making requires much energy, and British newsprint producers labour under an even bigger burden in this respect. Bowater has calculated that power costs in eastern Canada amount to $12.75 per megawatt compared with $40.60 per megawatt in the UK. The comparable figure for Sweden in $23.70.

Sterling price

In 1975 and 1976 the major overseas suppliers which dominate the British market became increasingly concerned by the sharp fall of sterling. To protect themselves from further erosion of earnings they introduced currency parity clauses.

When sterling fell below a fixed level the suppliers increased their sterling price thereby maintaining their dollar earnings. By the same token they had to agree that if sterling went up they would cut their prices. The various formulae were introduced in late 1977 and since then sterling has been climbing. As a result, UK newsprint buyers are getting substantial discounts from listed prices which they will not give up—even if it spells the end of the British industry.

Take, for example, the standard 48.8 grammes per square metre newsprint which is nominally priced at £270 per tonne. Under the currency parity clause, some UK buyers are paying around £238 per tonne — a 12 per cent discount. Other suppliers are charging even less. Domestic producers do not have enough muscle to dictate the market price and have to follow the imported price. This means that UK newsprint prices have remained virtually unchanged since 1977 during a period in which the general price level has risen by about 50 per cent.

Few observers foresaw that newsprint prices would behave in such a fashion. This is the crux of the industry's current problems. In 1977 the report of the Royal Commission on the Press maintained that newsprint prices would rise faster than prices generally until 1980 and would then follow the general rate of inflation.

British newsprint prices today are lower than in every other major European country and the British market has been much more deeply penetrated by imports. At first sight this seems a trifle odd since the Scandinavians and Canadians would be expected to sell into the highest-priced market. But herein lies another twist in the decline of the UK newsprint industry. The Canadians and Finns, in particular, have always concentrated their European exports on the UK market.

Canada supplies around 500,000 tonnes a year (roughly 80 per cent of its total exports to Europe) to the UK market and Finland 340,000 tonnes (nearly half its entire EEC exports). Sweden exported 180,000 tonnes to the UK last year and Norway 85,000 tonnes.

Britain has always been a much more open market for newsprint suppliers. (Perhaps it has something to do with the transatlantic ties of the newspaper publishers.)

Over the next five years Canada, Scandinavia and the U.S. each plan to install close to 1m tonnes of extra newsprint capacity. In North America new capacity is expected to grow by 6 per cent a year until 1983 compared with an annual growth in consumption of 2.4 per cent.

Most observers predict considerable overcapacity in the world newsprint industry during the next few years and this will mean that Britain's beleaguered industry will face even tougher import competition as the big exporters search for additional outlets. Newsprint prices are expected to weaken in 1981.

In these circumstances it could be argued that Britain might be better off converting its newsprint machines to other uses (for which there is only limited scope) and buying relatively cheap newsprint on the world markets.

The disadvantage of this is that it takes no account of the cost of having to buy back into the newsprint business at some later stage if the market suddenly turns against the consumers, as has happened before. A new 150,000 tonne per annum mill costs £100m at today's prices and they are rising.

Even in its curren state the British newsprint industry saves £100m of imports a year, provides employment for over 2,000 people, and is a major user of wastepaper. Indeed, Britain could produce newsprint entirely from waste paper if prices were right.

Prices are not right and attitudes towards the newsprint industry are far from clear. Unless there is a sharp decline in sterling or a fundamental change in the industry's cost advantages (which is unthinkable), the Government will soon have to face up to the fact that it no longer has a domestic newsprint industry to fall back on in times of crisis.

Letters to the Editor

The virtues of a spread

From Mr. R. Mitchell.

Sir, — The conclusion of Messrs. Greenwell (Lex, May 12) that the risks attendant upon a UK gross fund investing in foreign currency fixed-interest securities are simply not worth the candle appear at first sight to be admirably documented. There are a few points, however, which are worth mentioning.

Bretton Woods is actually dead. There is no sign of life in the corpse, which is indeed hardly surprising considering that it was laid to rest of Mr. Nixon.

In consequence we live in a world of floating currencies, a condition which was at first considered unworkable if not downright impossible. It seems to have come to stay — at least I have not heard of anyone with an idea which would lead out of it.

Exchange control is not dead, but sleeping. Long may it sleep on; and meanwhile the inmates of our former island currency prison can wander abroad if they have the imagination to do so. That, however, seems to be in doubt.

Given this new freedom, the responsible trustee, acting as a prudent man seet fit, might well prove unworthy of the description if he continues to hold all his eggs in what may prove to be a somewhat fragile basket of sterling. There is something about the inflation rate, not to say some of its more intractable components, such as the assumed right to live in reasonable style at everyone else's expense, which is not pointing in the same direction as North Sea oil. The latter is the fashion of the moment, but it was not so quite a short while ago, when it was perfectly certain that it was coming; nor has the UK's industrial prospect improved in the meantime.

I submit, therefore, that prudent investment practice is no more a matter of mathematical formulae today than it ever was — albeit mingled with some rather sweeping assumptions and the use of convenient start dates. It remains a philosophical art, not a science, and the virtues of "spread" are the same as ever, and fundamental where risk is concerned. Where trustees, or other owners of funds, do not find it economical to employ someone direct with the necessary knowledge, they can always obtain such a service.

Richard Mitchell.
The Old House, Aldham, Nr. Colchester, Essex.

Prestel users

From the Sales Promotion Manager UK and Ireland, Qantas Airways

Sir—I refer to the business travel supplement (May 12) and in particular to the article by David Bell. He makes reference to a facility by which Prestel users may effect reservations with Qantas, write their own tickets and pay for them by means of direct access to the Qantas computer.

The above is not the case, for Qantas is not linked to the Qantas computer. What in fact can happen is that Prestel users may request Qantas flights via the response frame in the Prestel system. Checks are made at set intervals for any reservations that may have been requested and they are actioned through the Qantas reservation system. Confirmations are then telephoned to the Prestel users and payment for tickets would be made by normal current procedures for I repeat, there is no link between Prestel and the Qantas system.

Mr. J. M. Rankin.
Qantas Airways, 49, Old Bond Street, W1.

Shareholders' interest

From Dr. A. Beard.

Sir,—I read with interest your article (May 10) on investment trust directors. It was my impression that the directors of investment trusts were paid by shareholders to look after the best interests of the shareholders but it seems from your article that the main interest of investment trust directors is to hang on to their funds regardless of the financial welfare of the shareholders.

(Dr.) A. W. Beard.
15, Upper Wimpole Street, W.1.

Attractive investment

From Professor B. Tew

Sir,—Spokesmen for the investment trust movement constantly assure us that the fact that investment trust shares currently stand at a considerable discount on their asset value makes them a highly attractive investment. Why, then, do not investment trust companies themselves invest more of their own portfolios in the shares of other investment trust companies?

(Professor) Brian Tew.
Department of Economics, University of Nottingham, *University Park, Nottingham.*

Comforts of a good hotel

From the Chairman, Park Lane Hotel

Sir, — Mr. David Bell's article "Big hotel chains geared to the seasoned traveller" (May 21) is full of interesting facts but his conclusions hardly stand up to close examination.

For instance, he writes "any experienced traveller knows of course, that . . . for all their clinical efficiency, modern hotels can sometimes be as frustrating as the old family owned institutions they have replaced," and again "all the research shows that most business travellers gravitate towards the large chains."

He misses the point that it is quite possible to provide the business traveller's requirements he listed—such as quick registration and check out, telephones that work, a comfortable bed, hot water and good room service at reasonable prices while retaining the special relationship between innkeeper and guest which marks out the best private hotels. Furthermore, there are international co-operative reservation services that enable individual units to offer all the booking facilities of the international chain.

I take issue most strongly with Mr. Bell. Efficiency—clinical or otherwise—is not the prerogative of hotel chains and economic management methods do not necessarily mean a lowering of standards of service to guests. Moreover, there is a definite trend for "seasoned" busines travellers to return to the old family owned hotels for the friendly style and warmth of welcome which is offered them.

C. E. B. L. Carr,
Park Lane Hotel,
Piccadilly, W1.

Milk retailing inquiry

From the Chairman, Creamline Dairies

Sir,—The report (May 6) by David Churchill, your consumer affairs correspondent, gave some of the reasons for the comparative costs of selling milk on the doorstep as opposed to selling it through supermarkets. As he says, the costings system is complicated, but it is in no way responsible for the fact that supermarket milk is often dearer; this is because it has to be packed in a non-returnable container as very few of the expensive glass bottles would be returned if they were used.

Glass bottles cost approximately 5p each, but can be used about fifty times before being lost or broken if their use is restricted to household delivery, so the unit price works out at one tenth of one penny per pint. Non-returnable cartons however, cost nearly 1½p each and take much longer to fill so the unit cost is nearly 1½ pence more per pint.

If space were available it would be possible to demonstrate that in fact, it is the doorstep trade which is subsidising shop prices, and not the reverse as is claimed by the supermarket chains.

W. S. Roe,
Creamline Dairies, Weymouth Road, Eccles, Lancs.

Cricket in Corfu

From Mrs. C. Chatelfid.

Sir,—Your article on cricket inCorfu (May10) reminded me that last sumer while watching a game in that town one of the players hit a six right through the window of a small shop. The owner, justifiably annoyed, wouldn't return the ball until a police car arrived and order was restored, and the game continued.

Almost the next ball was also hit for six—straight through the police car's windscreen!

(Mrs.) Vivienne Chatfield.
South Corner, Glen Road End, Wallington, Surrey.

Flying from Glasgow

From Mr. J. Francey

Sir,—I travel by British Air from Glasgow to London every two months to do a week's business, and over the past six years have seen the return fare go from something in the area of £40 to £94. Without any pressure from my firm I have recently done the journey in my own week-end time to take advantage of a price concession. On going for my ticket recently I was advised that this too had been altered, patently to "plug" the outlet for people like myself who worry about increased costs and try to get round them.

The fact that nothing has changed apart from a contraction in services given, namely the closure of west London air terminal and the withdrawal of breakfast on board, a wonderful time-saver to people like myself, indicates to me that these soaring charges are only a cynical additional levy on businesses. Is it the intention of the CBI and other bodies to accept this situation without protest?

John B. Francey.
59, Aytoun Drive. Erskine, Renfrewshire.

A few dollars more

From Mr. W. Hulton

Sir,—Only a fraction of the programme Anthony Harris referred to so scathingly in his Lombard Column (May 9) was devoted to the idea that the Hunt brothers might have engineered the fall of the silver price so they might subsequently buy it more cheaply.

Had Anthony Harris listened to the programme he would have discovered that that reference laregly consisted of a pithy rebuttal of the idea and that the author of those remarks was none other than Mr. Harris.

Pillory us, if you must, for wht we actually broadcast not fro what you think we have broadcast.

Will Hutton,
(Producer, "For a few dollars more")
BBC, Broadcasting House, W1.

Unbanked Britons

From Mr. P. Blackman

Sir,—Michael Lafferty, your Banking Correspondent, writes (May 3) a very lucid and detailed article, with statistics stating that only 29 per cent of manual workers have cheque accounts. He states that banks are considering how they may best encourage this and other groups to get the banking habit.

A very large proportion of our customers come from these groups and although we have seen a tenfold increase in payments by cheque in the last three or four years (especially since the advent of cheque guarantee cards) most customers still pay with cash (which we prefer).

Until the banks realise, however, that being open from 9.30 to 3.30, Monday to Friday virtually debars the average working man from attending their premises, they will certainly not capture his custom.

In the rare situation where a bank is almost next door to his or her place of employment, the long queues which form during the lunch period, when some of the bank staff are also at lunch, still put the potential customer off.

P. Blackman.
28A, Cheshire Street, Bethnal Green, E2.

Today's Events

GENERAL

UK: Dr. Francisco sa Carneiro, Prime Minisetr, and Prof. Diego Freitas do Amaral, Foreign Minister of Portugal, meet Mrs. Margaret Thatcher and Lord Carrington in London to discuss joining EEC.

Mr. R. Leigh Pemberton, National Westminster Bank chairman, speaks at Sand and Gravel Association conference, Torquay (to May 20).

General and Municipal Workers Union annual congress, Bournemouth (to May 22).

Union of Post Office Workers annual conference opens, Blackpool (to May 23).

Board of Investigation inquiry opens in London into grounding of tanker Amoco Cadiz.

Dr. Edward de Bono, Cognitive Research Trust director, lectures on "Communication and Change," Institution of Mechanical Engineers, London.

The Queen visits the Chelsea Flower Show.

Overseas: European Parliament session opens, Strasbourg (to May 23).

Mint Directors Conference and Exhibition opens, Utrecht (to May 21).

International Advertising Association 27th World Congress, Durban.

PARLIAMENTARY BUSINESS

House of Commons: Housing Bill, remaining stages. Dental Qualifications (EEC recognition) Order.

House of Lords: Transport Bill, committee. Dental Qualifications (EEC recognition) Order.

OFFICIAL STATISTICS

Turnover of the catering trades (first quarter). Index of industrial production (March—provisional).

COMPANY MEETINGS

See Financial Diary on Page 21.

COMPANY RESULTS

Final dividends: Bishopsgate Trust. Cakebread, Robey: Evered Holdings. Hawker Marris. The Land Securities Investment Trust. Outwich Investment Trust. Readicut Intrenational. H. Samuel.

Interim dividends: Cambrian and General Securities. Management Agency and Music. The Reo Stakis Organisation.

Oakwood comes to market

STOCKBROKERS Capel-Cure Myers are bringing another company to the market. Today the prospectus is published for the placing of a quarter of the equity in Oakwood Group. The placing is of 500,000 shares at 83p each raising £415,000 and valuing the whole company at £1.66m.

Oakwood is a holding company with two operating subsidiaries, both with their roots established at the beginning of the century.

Clough Smith provides a service covering a wide variety of electrical and associated civil engineering work. The three main activities are overhead transmission lines, cabling and electrical distribution systems and railway cabling.

Contracts at Clough are running roughly 50:50 between the UK and overseas at present, though the split varies. Overall the company has an order book of £6.7m, including £2.3m with the Electricity Board and other public undertakings. Projects on hand include two contracts in Kenya worth £4.8m.

All contracts longer than a year include inflation clauses.

The other operating arm, Frank Love, is the country's largest stockist and distributor of water fittings and sanitaryware to builders' merchants and other retail outlets.

Frank Love is currently negotiating for the lease on a new 5,000 sq ft warehouse at Camberwell which will be used as a distribution point for London and the Home Counties.

The companies came together when they were bought by Lombard North Central. When National Westminster Bank took over Lombard, the industrial trading arm was sold off for around £550,000 to Edward Chambers who had run the division for Lombard.

Mr. Chambers financed the purchase with the banking of a merchant bank. Several of the companies acquired from Lombard were sold fairly quickly, raising around £500,000, which enabled Chambers to repay the merchant bank and operate Clough and Frank Love under the Oakwood holding company.

The Clough company has a small minority holding—Oakwood controls 88.5 per cent—which is held by 15 shareholders who are members of the original family and ex-employees.

Originally Mr. Chambers had taken the view that his company was too small to bring to the market with a fully fledged listing. "The dialogue with Capel-Cure started around the end of last year and I was aiming for a 163 listing. But by the time I got to the 11th hour I realised that the amount of undertaking and exposure was just about as stringent as for the primary market and I was advised there was no reason I could not go for a full quote."

Of the £415,000 being raised for the owners by the placing, £160,000 will immediately come to the company. When operating as a private business Oakwood purchased a home for the Chambers family. Mr. Chambers is now buying the house from the company with part of the cash he will be raising from selling his shares.

Apart from the obvious reasons of raising cash for the directors and their families Oakwood is after a full quote because the directors believe it will enhance the company's reputation in the contracting field, especially when tendering for work overseas.

Also Oakwood is interested in making acquisitions. This will probably take the form of a "third leg" to the business but will be in a sector related to the "construction" type of operation it has at present.

The company's record shows steady growth for Frank Love. There was a profit of £94,000 on sales of £1.46m in the year to September 30 1975 and by 1978-1979 profits had expanded to £229,000 on sales of £3.75m.

Clough Smith's record is far more erratic. In 1974-75 it recorded a £32,000 loss on sales of £3.8m. There was an improvement in the following two years but in 1977-78 profits collapsed from £180,000 to £24,000. Last year it made a profit of £276,000 on turnover of £4.97m.

Director Geoffrey Coleshill explains that the 1975 loss was caused by "a couple of duff contracts in Jordan resulting from bad tendering by a director who has since left." The downturn in 1977-78 happened because of its attempt to expand in Scotland. "We went as far North as we could," says Mr. Coleshill, "up as far as Shetland and the Orkneys. It was like running an overseas job. We diversified outside our usual activities and tendered in ignorance." It was also a year of extreme weather which caused problems and Clough withdrew completely and closed the Scottish office.

The directors are forecasting profits of £700,000 for the current year, of which 65 per cent will be provided by Clough Smith. On this basis they intend to pay a full dividend of 4.5p per share. Had the company been quoted for a full year they would have paid 6.5p per share, which would be covered 2.4 times by fully taxed earnings.

The balance sheet, dated September 1979, shows net borrowings of £288,000 and shareholders' funds of £2.14m.

● **comment**

At 83p Oakwood is coming to the market on a prospective fully taxed p/e of 5.3 and yield of 11.2 per cent while the asset backing is 107p a share. It is an undemanding rating and, bearing in mind that very little stock will be available to the market, dealings should open up with a reasonable premium. Yet the market should not let the rating get too euphoric. The Clough record is patchy and while the company says it has learnt its lessons from the events of 1975 and 1978 the experiences are too recent to be complacent that setbacks will not be repeated. It operates in sectors tied to nationalised industries and Government spending. Defence contracts for example may be encouraging at present but street lighting work is reducing. Also some of the jump in Clough's profits this year reflects the company making up lost ground after the Scottish setback. Frank Love, meantime, is sluggish with the forecast taking in only a very modest advance.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Australia and New Zealand Banking, Cambrian and General Securities, J. H. Fenner, Management Agency and Music, Reo Stakis Organisation.

Finals: Bishopsgate Trust, Cakebread Robey, El Oro Mining and Exploration, Evered, Exploration Company, Hawker Morris, Land Securities Investment Trust, Outwich Investment Trust, Readicut International, H. Samuel.

FUTURE DATES

Interims—
Allied London Properties ... May 22
Hominy ... May 23
Leeds & Dist Dyers & Finishers ... May 22
Morland ... May 22
Northern Ind. Improvemt. Tst. ... May 20

Finals—
Beecham ... May 29
Fidelity Radio ... May 22
Gates (Frank G.) ... June 2
Hargreaves ... June 19
Hield Bros. ... May 22
Normand Electrical ... May 29
Reed International ... June 3
Scotcros ... June 3
Young & Co.'s Brewery ... May 28

Prince of Wales at £0.47m

WITH INTEREST charges substantially higher at £216,023 against £96,155, pre-tax profits of Prince of Wales Hotels dropped from £504,391 to £470,701. There was a tax credit of £24,986 against a charge of £97,102 last time, resulting in profits of £495,687 compared with £407,289. Stated earnings per 25p share of this north of England hotelier are 12.24p against 10.06p, and the final dividend is raised from 0.645p to 0.9675p, making the total 1.7175p (1.145p).

Revaluation of fixed assets has produced a surplus of £1,172,179. Repairs, replacements and refurbishments have increased by £118,260.

Encouraging start for Gerrard & National

THE CURRENT year has started on an encouraging note for Gerrard and National Discount Company, with its book being considerably lengthened in recent weeks, says Mr. R. G. Gibbs, chairman, in his annual statement.

The range and spread of the company's customers in steling markets has continued to expand, especially in the commercial sector. The directors look on the Euro-sterling market as one of increasing importance for the development of new outlets and contracts.

The chairman says the company will be opening a representative office on Wall Street, New York, in June, with the aim of acquiring and developing new business in Euro-dollar certificates of deposit and in sterling money market instruments.

The notes to the accounts show that four writs claiming DM 20.94m (£5.12m) have been issued against a wholly-owned subsidiary, Gerrard International, in connection with nine bills of exchange purchased by the company and resold in the normal course of its business. The purchasers have also issued writs against the bank which guaranteed the bills.

Gerrard International has started proceedings against the vendors of the bills and the guaranteeing bank. The directors believe no loss should arise.

The group incurred a loss after tax of £1.12m in the year to April 5, 1980, against a profit of £5.01m last time, as reported on May 1. The net total dividend is being stepped up to 11.5p (9.124p).

Current assets totalled £1.2m (£1.21m) at the year-end, including cash at bankers and in hand of £1.88m (£3.35m). Current liabilities amounted to £1.17m (£1.18m).

Meeting, 32 Lombard Street, on June 12 at noon.

Hammerson pays £1½m for Woolgate House freehold

BY MICHAEL CASSELL

Hammerson Property and Investment Trust has paid the Merchant Taylors' Company over £-½m for the freehold of Woolgaet House in the City.

The deal is likely to add around £10m to the value of the property, included in Hammerson's 1979 accounts at a figure of £75m.

The purchase of the freehold comes six months after Hammerson gained 100 per cent ownership of the long leasehold on the 27,000 sq ft office building through its purchase of Reunion Properties.

Reunion held the 25 per cent stake in Woolgate House not already in Hammerson's hands and at the time of the takeover the Hammerson directors estimated that 100 per cent ownership of th eproperty would result in a valuation of around £75m.

The £75m has duly been included in the 1979 accounts, published today, but Hammerson says that, following the purchsae of the freehold, another valuation will be made at the end of 1980. Mr. Sydney Mason, chairman, says the marriage value of the deal is around £10m.

Until the end of last year, the 1969 valuation figure o f£25m on Woolgate House had remained unchanged with Hammerson's 75 per cent interest held in the accounts at £18.75m. Woolgate House is now entirely occupied by Chase Manhattan Bank, which is carrying out extensive alterations to the building. Rental income from the property, developed by Hammerson and Reunion and completed in 1968 at a cost of less than £7m, is now over £3½m a year.

Mr. Mason also tells shareholders that Hammerson has let to the National Freight Corporation the remaining 45,000 sq ft in the Merton Centre, Bedford, which was acquired as part of the Reunion package. It had been expected that a letting could take up to two years.

On prospects for the UK property development market, the chairman once again believes opportunities in the UK are extremely limited. The 1979 accounts put UK capital commitments at only £650,000 against £20.5m in Canada, the cost of the fourth phase of the company's Bow Valley Square scheme in Calgary, where a "significant" amount of pre-letting has already been achieved despite the late 1982 completion date.

Mr. Mason says that development activity taking place in the UK usually involves companies which have owned sites for some time or institutions which are being tempted into direct development. In many cases, the schemes now under way are of a size and time scale which would normally be undertaken by an experienced and well-established property company.

As reported on April 26, Hommerson's pre-tax profits for 1979 rose from £8.16m to £7.83m with earnings per share up from 11.56p to 16.75p. The directors proposed 1980 dividends totalling 18p (12p) but as a result of the proposed one-for-one scrip issue the intention is to recommend an interim of 3½p and a 8½p final on the doubled capital.

Rental income rose from £25.94m to £27.29m while short-term borrowings increased—largely as a result of the Reunion purchase — from £45.54m to £54.37m. Meeting: 100, Park Lane, June 16, noon.

J. Billam earns and pays more

Continued expansion of the engineering interests pushed pre-tax profits of J. Billam, cutler and sheet metal engineer, to a record £375,124 in 1979, compared with £288,574.

But the year was extremely difficult, say the directors. They intend to continue rationalisation of the cutlery division in an effort to improve profitability in 1980.

Earnings per share, after tax of £84,385 (£155,050) are shown up from 8.9p to 19.38p, and the dividend is raised to 4.8p net (3.4703p) with a final of 3.6p.

UNITECH 97.5% ACCEPTED

The recent one-for-10 rights issue of Unitech, which was to raise approximately £3m for the company net of expenses, has been accepted as to 97.5 per cent.

FT Share Service

The following securities have been added to the Share Information Service appearing in the Financial Times:—

BASF AG (Section: Chemicals)
Westpool Investment Trust (Investment Trusts)

SPAIN

1980 High	1980 Low		May 16 Price
228	202	Banco Bilbao	203
258	217	Banco Central	217
280	208	Banco Exterior	206
228	200	Banco Hispano	200
137	122	Banco Ind. Cat.	122
175	141	Banco Madrid	141
274	237	Banco Santander	237
180	140	Banco Urquijo	140
238	208	Banco Vizcaya	208
209	200	Banco Zaragoza	200
106	75	Dragados	76
62	58	Espanola Zinc	61
59.7	53.2	Fecsa	53.7
40	24	Gal. Preciados	24
65.7	58.7	Hidrola	65.7
63	57.5	Iberduero	60
120	100.7	Petroleos	101
73	59	Petroliber	59
115	107	Sogefisa	107
57	51.5	Telefonica	52.7
66.2	58.2	Union Elect.	65

Public Works Loan Board rates

Effective from May 17

Years	Quota loans repaid by EIP†	Quota loans repaid At‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid At‡	Non-quota loans A* repaid at maturity§
Up to 5	14⅞	14⅞	14⅞	15⅛	15⅛	14⅞
Over 5, up to 10	14⅞	14⅞	14⅞	14⅞	14⅞	14⅞
Over 10, up to 15	14⅞	14⅞	14⅞	14⅞	14⅞	14⅞
Over 15, up to 25	14⅞	14⅞	14⅞	14⅞	14⅞	14⅞
Over 25	14⅞	14⅞	14⅞	14⅞	14⅞	14⅞

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payment of interest only.

WORLD STOCK MARKETS

NEW YORK

1980 High	1980 Low	Stock	May 16	1980 High	1980 Low	Stock	May 16
37⅞	27	Cincinnati Mil.	28⅞	24¾	19¼	Genuine Parts	28⅞
24½	17½	Citicorp	21	33½	22½	Georgia Pac	25¼
110½	83¼	Cities Service	92¼	65	43	Geosource	56¾
20⅝	14¾	City Investg	21⅛	25½	17⅞	Gerber Prod.	22½
39⅝	29⅝	Clark Equipment	33¼	96¾	68½	Getty Oil	74
37¼	26	Cleve Cliffs Iron	30¾	36	18½	Giddings Lewis	23
10⅝	8	Clorox	10	26⅝	18⅞	Gillette	25¼
9⅞	7⅛	Cluett Peaby	6⅞	54¾	37⅜	Global Marine	48
35⅝	28⅞	Coca Cola	35¾	21⅝	16½	Goodrich (BF)	18⅝
6¼	4	Coca Btl. NY	5	14⅝	10⅞	Goodyear Tire	12
14¾	11⅝	Colgate Palm	15	25¼	21⅝	Gould	21⅝
8¾	6¼	Collins Aikman	7⅛	43¾	33¼	Grace	35¾
55½	35½	Colt Inds	39	39⅞	25¾	Grainger (WW)	26¾

Indices

NEW YORK —DOW JONES

	May 16	May 15	May 14	May 13	May 12	May 9	1980 High	1980 Low	Since Cmpil'n High	Since Cmpil'n Low
● Industr'ls	826.88	822.58	818.82	816.88	805.29	805.99	903.84 (13/2)	759.13 (21/4)	1051.70 (11/73)	41.22 (2/7/32)
H'me B'nds	72.32	72.45	72.18	72.34	72.31	72.39	74.81 (9/1)	65.87 (28/3)	—	—
Transport	256.78	259.17	260.11	255.63	249.79	248.66	305.90 (8/2)	233.66 (27/3)	305.90 (8/2/80)	12.23 (8/7/32)
Utilities	109.17	109.87	108.56	108.59	108.22	108.42	113.46 (13/2)	96.04 (27/3)	163.32 (20/4/69)	10.52 (28/4/42)
TradingVol 000's	51,710	51,120	—	35,480	28,220	38,288	—	—	—	—

● Day's high 829.52 low 819.11

	May 9	May 2	Apr. 25	Year ago (approx)
Ind. div. yield %	6.50	6.50	6.49	6.02

STANDARD AND POORS

	May 16	May 15	May 14	May 13	May 12	May 9	1980 High	1980 Low	Since Cmpil'n High	Since Cmpil'n Low
‡Indust'ls	120.28	119.79	119.84	119.88	117.21	117.10	134.47 (13/2)	111.09 (27/7)	134.64 (11/1/73)	3.52 (30/6/32)
‡Composite	107.35	106.98	106.86	106.30	104.73	104.72	118.44 (13/2)	98.22 (13.2)	125.85 (11/1/73)	4.40 (1/6/32)

	May 15	May 7	Apr. 30	Year ago (approx.)
Ind. div. yield %	5.56	5.56	5.66	5.38
Ind. P/E Ratio	7.38	7.40	7.57	7.98
Long Gov. Bond Yield	10.19	9.91	10.70	9.18

N.Y.S.E. ALL COMMON

May 16	May 15	May 14	May 13	1980 High	1980 Low
61.25	61.29	60.90	60.54	67.77 (13/2)	55.30 (27/3)

Rises and Falls	May 16	May 15	May 14
Issues Traded	1,849	1,871	1,880
Rises	821	903	1,061
Falls	638	597	469
Unchanged	390	371	350
New Highs	—	—	—
New Lows	—	—	—

MONTREAL

	May 16	May 15	May 14	May 13	1980 High	1980 Low
Industrial	337.84	336.09	336.78	331.18	425.90 (29/2)	326.21 (27/3)
Combined	318.29	317.76	316.35	311.17	372.90 (29/2)	286.90 (27/3)
TORONTO Composite	1892.4	1871.7	1858.5	1856.5	2192.5 (29/2)	1702.5 (27/3)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Howd. Johnson	1,611,900	26⅝	−⅞	Mobil	368,000	68½	+1½
Colgate Palm.	613,300	15	+⅛	Teleprompt	360,800	17½	−⅛
Sterer	452,300	25⅝	−⅛	IU Internatl.	359,000	15⅝	+⅛
City Invest.	435,500	21⅛	+⅛	Kerr McGee	316,800	71¼	−3⅞
Amer. Cyanamid	388,900	30⅞	+1⅛	Lilly (Eli)	307,500	49⅝	—

SOUTH AFRICA

1980 High	1980 Low	May 16	Price Rand
6.10	5.00	Nedbank	6.00
15.10	12.50	OK Bazaars	15.0
3.30	2.55	Protea Hldgs	2.95
6.90	5.90	Rembrandt	5.95
3.20	2.65	Rennies	3.00
6.60	4.90	Rust Plat	5.05
2.85	2.35	Sage Hldgs	2.37
3.25	2.68	SA Brews	3.25
13.50	10.30	Smith CG Sugar	10.60
1.90	1.40	Sorec	1.72
15.00	13.50	Tiger Oats	15.00
2.35	1.85	Unisec	1.95

Financial Rand US$0.93½ (Discount of 24½%)

BRAZIL

1980 High	1980 Low	May 16	Price Cruz
1.84	1.09	Acesita	1.84
3.35	2.45	Banco Brazil	3.28
4.29	1.90	Belgo. Min	3.98
2.64	1.40	Lojas Amer	2.50
4.50	1.67	Petrobras PP	4.50
2.30	1.30	Pirelli	1.30
4.00	2.55	Souza Cruz	3.10
7.20	4.80	Unip PE	5.90
20.00	2.93	Vale Rio Doce	9.90

TEL AVIV

Company	Prices May 16 1980	Change on the week
Banking, Insurance and Finance		
Bank Leumi le Israel	606	+ 9.0
IDB Bankholding	696	+ 11.0
Bank Hapoalim Br.	1,003	+ 34.0
Union Bk. of Israel Br.	686	− 20.0
United Mizrahi Bank	441	+ 1.0
Hassneh Insurance Br.	501	− 24.0
General Mort. Bank Br.	500	− [illegible]
"Tefahot" Isrl. Mt. Bk.	555	+ 20.0
Land Development		
Africa Israel Inv. I£10	1,000	+330.0
Israel Land Devpt. Br.	308	− 15.0
Property and Building	394	+ 38.0
Public Utility		
Israel Electric Cpn.	540	− 9.0
Investment Companies		
Bank Leumi Invest.	439	− 22.0
Discount Invest.	357	− 28.0
Commercial and Industrial		
Alliance Tire & Rubber	1,849	+274.0
Elco Br.	244	+ 23.0
Argoman Textile Br.	249	− 15.0
"Ata" Textile "B"	184.5	+ 11.5
Amer. Israeli Ppr. Mills	793	+ 2.0
Assis	380	− 10.0
Teva Reg.	740	+ 58.0
Fuel and Oil		
Delek	304	—

Source: Bank Leumi le Israel, BM, Tel Aviv.

Spanish prices, Page 16

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

INTERNATIONAL BONDS — BY OUR EUROMARKETS STAFF

A forlorn protest from the dealers

STRAIGHT dollar Eurobonds closed the week virtually unchanged on balance in very thin trading with Ascension Day a holiday in continental centres and many dealers away in New York for the Association of International Bond Dealers' *annual meeting.*

With the market quieter the spate of new issues subsided. Prime rates and Eurodollar rates were also lower on balance, but the note of caution remains over the speed with which dollar rates have fallen.

The chart shows how short-term interest differentials have changed radically in the weeks since Easter. While the short-term differential between dollars and Swiss francs has narrowed significantly, there has been an about-turn in the dollar/sterling differentials.

Sterling rates, which were slightly lower than those on dollars at Easter, are now 6 per cent higher—amid indications from the UK Government that there are no immediate prospects of a cut in Minimum Lending Rate. Nonetheless sterling Eurobonds ended the week about ¾ points higher on average.

Swiss franc foreign bonds posted average gains of ¾ points on the week, helped by the better outlook for the currency. The next new issue, due to be announced this week, is expected to be SwFr 80m for the Spanish railways, RENFE, managed by Swiss Bank Corporation. D-Mark foreign bonds closed ¼ points higher on the week in subdued holiday trading.

New issues activity has slowed in this sector, too, with the DM 100m bond for Akzo, managed by Deutsche Bank, the only new offering during the week. There is also a shortage of new domestic paper and this is lending a firm undertone to the market.

In New York the AIBD's twelfth annual meeting will not be remembered as a milestone for Eurobond market. This might have been otherwise if *a resolution from the Nordic* region had been carried. It asked "that the board of the AIBD be given a mandate to prepare an in-depth study of the structural and practical problems in the primary and secondary Eurobonds markets and to prepare a set of alterna*tive solutions to these problems.*"

It was defeated by 178 votes to 120. Despite this defeat, there was obvious frustration among dealers present at the annual meeting. There is evidently a growing resentment among Eurobond traders against the large underwriting bond houses which dominate the new issuing business.

The traders feel these houses are to blame for much of the trouble which has beset the market during the past year, which for many has been the worst in the 12 years of the association's history.

These dealers agree with the proposer of the Nordic region resolution, Mr. Kurt Olav Orbech of the Union Bank of Norway, who complained that the whole distribution pattern of bonds had been disturbed, and that retail buyers might disappear, as a consequence of the discounts in price granted by the issuing houses to institutional clients. Underwriting agreements were not being kept and Mr. Orbech hinted that it was now difficult to discuss the matters with the major bond issuing houses.

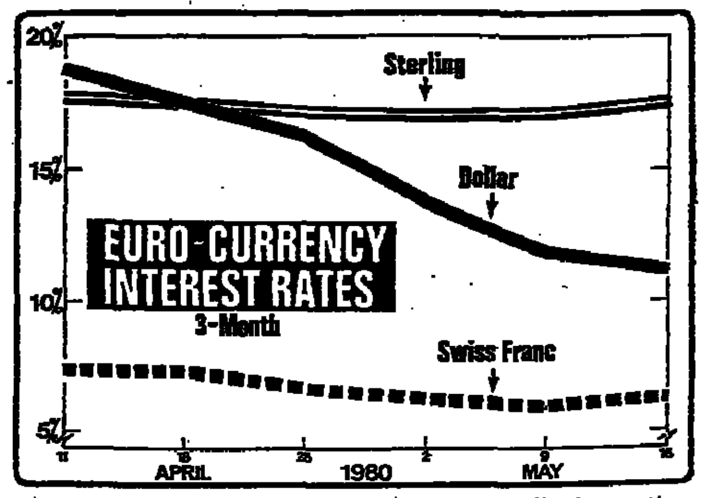
The Nordic region resolution was a bold attempt to get the AIBD directly involved in the Eurobond new issue market, something it has always shied away from becoming. The AIBD Board, which is chaired by Mr. been dominated by personalities Rupert Hambro, has always from the trading area of the Eurobond market. Bankers involved on the new issue side have usually not strayed beyond the specialised committees of the AIBD.

The maor issuing houses of the Eurobond market are very loathe to see procedures standardised in a business where freedom to innovate has always been one of the main attractions.

Whether this tension between the trading and issuing sides of the market market will re-emerge at next year's meeting will depend in part on the state of the market; if it booms as a result of hte coming U.S. recession, the subsequent fall in U.S. interest rates and the strong dollar, the issues of "grey market" trading and the commission's structure might well be buried yet again.

However, if the market goes through another 12 months of mispriced issues which are very difficult to sell—as happened throughout 1979 and up to last winter—the resolve of the Nordic region to air the whole issue could be strengthened.

Lex, Eurosterling FRNs, Back Page



CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
‡‡‡State Bank of India	30	1987	7	6¾*	100	CSFB	6.964*
‡‡†Cafetero Finance Corp.	30	1985	5	7*	100	Chemical Bank	7.171*
†Orient Leasing	30	1985	4	12	100	Daiwa Europe	12.000
‡EDF (g'teed France)	100	1990	10	11¼	100	Salomon Bros., BNP	11.250
‡Ford O'seas Fin. NV	250	1985	5	12½	100	Goldman Sachs	12.425
‡ECSC	100	1988	6½	11	100	Paribas	11.500
‡§Apache Intnl. Fin. NV	25	1995	15	8½	100	Blyth Eastman Paine Webber	8.750
††Caisse Nationale des Telecommunications	125	1990	10	*	*	Lazard Freres & Co.	*
‡Kingdom of Denmark	100	1990	7.9	11½	99½	UBS (Securities)	11.638
‡EEC	75	1995	10½	11	99½	Deutsche Bank, CSFB	11.070
‡ICI Intnl. Fin. NV	100	1983	3	11	100	S.G. Warburg, Deutsche Bank	11.000
†Midland Intnl. Fin. NV	150	1992	12	5¼*	100	S. Montagu, EBC, CSFB	5.319*
Anheuser-Busch Int. Fin. NV	100	1990	10	11¼	*	Dillon Read	*
†‡Ljubljanska Banka	25	1987	7	8*	100	Credit Lyonnais	8.160*
‡Goodyear O'seas Fin. NV	75	1987	7	12½	100	Chase Manhattan	12.500
‡§Elsion Fin. NV	50	1984	4	4	100	AmRo	4.000
D-MARKS							
‡**Kingdom of Sweden	250	1987	7	9	100	Deutsche Bank	9.000
‡**Girozentrale Vienna	50	1987	7	8¾	100	WestLB	8.875
‡Akzo	100	1990	8	9	99	Deutsche Bank	9.157
FRENCH FRANCS							
‡Eurofima	120	1987	7	13½	100	CCF	13.500
SWISS FRANCS							
**ESCOM (g'teed Rep. South Africa)	100	1984	—	6¾	100	SBC	6.750
‡‡Iberpistas	35	1990	—	6¾*	100	Soditic	6.606*
‡§Mitsubishi Electric	80	1985	—	4¼	100	UBS	4.125
‡§Noritake	30	1985	—	4¾	100	SBC	4.375
‡City of Bergen	50	1990	—	6¼	100½	Credit Suisse	5.89
‡**Kingdom of Denmark	100	1987	—	6½	100	UBS	6.500
CANADIAN DOLLARS							
‡GMAC	50	1985	5	12	99½	Morgan Stanley	12.089
GUILDERS							
‡EIB	150	1995	13	10½	100	AmRo	10.500

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. § Minimum. ‖ Convertible. †† Registered with U.S. Securities and Exchange Commission. ¶ Purchase Fund. Note: Yields are calculated on AIBD basis.

CREDITS — BY PETER MONTAGNON

Flight into quality

THE SLOWDOWN of lending to Eastern Europe in the aftermath of the Soviet invasion of Afghanistan has prompted a marked increase in the appetite of international banks for borrowings by Western European countries.

Sadly enough for the banks, this has come at a time when the very best rated borrowers in Northern Europe have, with the exception of Belgium and Finland, been reluctant to come to market. By contrast there continue to be a number of deals for well rated borrowers in the South of the continent. Because of the "flight into quality" these are attracting strong attention.

For example, the credit being arranged by Credito Italiano and Orion for Societa Italiana per l'Esercizia Telefonica has been raised to $200m from $150m. Six other banks have joined the management group. These are Bank of Montreal, Banque de l'Indochine et de Suez, Credit Lyonnais, Kredietbank International, Marine Midland and Sumitomo Bank. The credit bears a spread of ⅝ per cent over eight years after which participations will be taken back by *the managers for a further two* years at a spread of ⅞.

Also in Italy, the $1bn refinancing announced last month by Bank of America for ENEL is reported to have met with very strong demand, while the latest loan for the Central Bank of Greece was raised to $550m from an originally projected $300m. Following this, banks are already awaiting details of the next Greek credit, expected to be for the country's Public Power Corporation under the management of Toronto Dominion.

A group of 10 international banks, meanwhile, visited Lisbon over the weekend to discuss terms for Portgual's forthcoming $350m credit. The banks are: Chase Manhattan, CIBC, Credit Lyonnais, DG Bank, Fuji Bank, Industrial Bank of Japan, Lloyds Bank International, Natwest, Ste Generale de Banque and WestLB.

The outcome was a mandate for an eight-year credit with a spread of ⅝ per cent for the first three years rising to ¾ per cent thereafter and a 4½-year grace period. There has been an unusually complicated allocation of roles to individual managers. Joint agents are Credit Lyonnais and LBI: the books are to be run jointly by DG Bank and Chase, while NatWest will handle the documents jointly with

Elsewhere, the management group for Brazil's Banco Nacional do Desenvolvimento Economico $350m credit has been expanded to include Citibank, Banco de Bilbao and Ste Generale de Banque.

The credit went into syndication last week, and by Friday a sell-down of around $60m had been achieved, according to estimates from international bankers. This includes some of the 10-year tranche which Bank of Montreal had retained for itself as agent for the deal, but which is now being sold in the market place. The sell-down total could increase next week, as banks which delayed their participation decisions because of the Ascension day holiday send in their replies.

Japanese lending, Page 24

U.S. BONDS — BY IAN HARGREAVES

Volcker puts the brakes on rally

FOR THE second week in succession, the credit markets faded before the weekend, worrying about the money supply, Federal Reserve policy and the additional pressures caused by growing corporate financing in the bond market.

Although the weekly changes in rates shown in the table do not indicate very large upward movements, that masks the fact that for the first three days of last week the credit markets continued their remarkable month-long rally.

The break came on Thursday, shortly after Mr. Paul Volcker, chairman of the Fed, began explaining to a Congressional committee that the recent shrinking in the money supply could not continue for long.

He was obviously trying to tell the market not to behave like a market when it saw the money supply figures the following day. Whether his advance notification helped it is hard to say, because the very warning was enough to add half a percentage point to three-month Treasury bill rates and to knock between one and two points off the price of long bonds.

When the figure came—M1-A up $5.8bn, one of the largest increases on record—the market unsurprisingly accelerated the same trend. Three-month bills ended the week over the 9 per cent mark, a percentage point increase from the Wednesday close.

If Mr. Volcker were writing this column, he would be quick to emphasise that one week's money supply figures, influenced more than usually by seasonal factors, does not make a trend. For the past four weeks reported, M1-A has in fact declined at an average rate of 4.7 per cent.

Besides the tendency of the market to over-react, there is some reason for thinking that interest rates are unlikely to sink much lower in hte immediate future. The most compelling argument is not what the Fed may or may not do at its Open Market Committee meeting tomorrow or, indeed, whether the Fed will soon start to dismantle its credit controls, as Mr. Volcker has strongly hinted. More important is the simple fundamental of inflation.

Even optimistic Administration economists, who believe they will have the consumer index down to a less than 10 per cent rate by the year-end admit that the so-called "underlying rate of inflation" (inflation in such things as interest rates and sudden boosts from higher energy costs) is probably still going up and that it is certainly still well in excess of 10 per cent and perhaps as high as 13 per cent.

Unless bond traders become utterly uncharacteristically optimistic, it is hard to see how yields on a 30-year Treasury bond should, at this stage, fall much below the 10.4 per cent range they are trading at.

U.S. INTEREST RATES (%)

	Week to May 16	Week to May 9
3-month Treas. Bill	8.93	8.90
3-mth. comcl. paper	9.20	9.38
Federal Funds weekly average	11.13	11.13
Treas. 30-year bond	10.42	10.36
Lng-term AAA utility	11.56	11.45
Lng-term AA indstrl.	10.97	10.75

Source: Salomon Bros. estimates.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alcoa of Australia 10 89	60	90⅞	91⅜	−0⅛	+0⅛	11.63
Australian Res. 9¾ 84	30	94⅛	94⅝	−0⅛	+0⅛	11.36
Beneficial Fin. 9¾ 87	100	89⅜	89⅞	−0⅛	+0⅛	11.97
CECA Grad. Rate 12 86	100	95⅞	96⅜	+1½	+0⅞	12.90
CECA 11½ 90	50	96½	97½	−0½	−1	12.14
Canadian Pacific 9¾ 89	50	91	91½	0	−0⅜	11.35
Carter Hawley 9¾ 86	50	89½	90	−0¼	−0¼	12.21
Comalco Inv. E. 10½ 91	40	92¼	92¾	−0¼	−0⅜	11.48
Continental Grp. 9⅞ 86	100	90⅝	91⅛	−0⅛	−0½	11.79
Dome Petroleum 10 94	54	83⅛	83⅝	−0⅜	−0¼	12.58
Dome Petroleum 13½ 92	50	99⅝	100⅛	0	−1⅜	13.49
Dominion Bridge 10¾ 84	30	93	93½	−0⅛	−0⅞	12.44
EIB 11¾ 92	80	96⅝	97⅛	+0⅛	+0⅞	12.26
EIB 13¾ 90	100	105⅞	106⅜	−0¼	+0⅛	12.64
Ekportin 11¼ 87	50	97⅛	97⅞	−0⅛	−0⅜	11.75
Export Dv. Cpn. 9¾ 84	150	94⅜	94⅞	−0⅜	−0¼	11.37
Export Dv. Cpn. 12¾ 87	100	104⅜	104⅞	−0⅜	+0⅛	11.74
Finland 9⅜ 89	100	†88¼	88¾	0	+1⅛	12.05
George Weston 13½ 87	30	98⅛	98⅝	−0⅛	+0⅛	13.87
GTE Finance 9⅜ 89	55	85⅞	86⅜	−0⅛	−0⅞	12.33
GMAC 9¼ 89	75	90⅝	91⅛	−0⅜	0	11.40
GMAC O/S Fin. 11 84	100	97¾	98¼	+0⅛	+0⅛	11.54
GMAC O/S Fin. 13¾ 85	100	104½	105	−0⅛	−0⅜	12.02
Kennecott Int. 9½ 86	100	84¼	84¾	−0¼	−2⅛	13.42
McGraw 13½ 86	75	89	89½	−0⅛	−0⅝	11.49
Manitoba 9½ 89	75	97⅞	98⅜	+0⅛	+0⅛	14.04
Michelin 10 94	125	87½	88	−0½	+0⅛	11.80
Nat. Des. Telecm. 9½ 86	*100*	*92*	*92½*	*−0¼*	*+0¼*	*11.32*
New Brunswick 9¾ 94	75	85⅜	85⅞	−0⅛	0	11.91
Newfoundland 10 94	50	89⅞	90⅜	+0⅛	+0½	11.44
Norway 9½ 84	150	94½	95	0	+0⅛	11.21
NorWest Ind. 13⅝ 87	50	†97¾	98¼	0	−0¼	14.09
Nova Scotia Pwr. 9¾ 89	60	89¼	89¾	−0½	−0⅜	11.70
Pennwalt O/S F. 9⅜ 84	25	92⅛	92⅝	−0⅛	0	12.26
Pepsico Cap. 8¾ 84	100	94⅞	95⅜	−0⅛	+0⅛	10.86
Quebec Hydro 10 99	75	81⅝	82⅛	−0⅜	−0⅛	12.54
Sears Roebuck 9 82	150	96¼	96¾	−0⅛	−0⅛	11.26
SNCF 12⅞ 85	50	102⅝	103⅛	−0½	−0⅛	11.58
Statoil 9⅝ 89	100	89¾	90¼	−0⅛	+0⅛	11.42
Sweden 9⅜ 89	100	89⅝	90⅛	−0⅛	0	11.62
Sweden 9¾ 84	100	94½	95	−0¼	+0⅛	11.26
Unilever NV 9⅛ 87	100	90⅝	91⅛	−0⅜	+0⅛	11.15
Warner-Lambert 9 84	100	93⅛	93⅝	+0⅛	+1	11.07

Average price changes... On day −0⅛ on week 0

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 8¾ 90	250	99⅜	99⅞	+0⅛	+0⅜	8.17
BFCE 7¾ 87	100	97⅛	98⅛	−0⅜	+0¼	8.21
BFCE 8⅛ 95	100	96	97	−0⅜	+1¼	8.54
Brazil 8 87	150	91⅛	91⅞	−0½	−1⅛	9.68
CECA 7 91	150	91⅞	92⅜	−0¼	+1⅛	8.09
Council of Eur. 7¾ 89	100	93⅛	93⅝	−0¼	−0⅛	8.33
Denmark 7⅞ 85	100	†95½	96½	−0¼	+0⅛	8.78
Denmark 8¼ 92	100	†98	99	+0⅛	+0⅛	8.45
EEC 7¾ 94	225	96½	97½	+1¼	+1⅞	8.24
EIB 7¾ 87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland Rep. of 8 86	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Neder. Gasunie 8 86	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand 7¾ 87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OKB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oslo, City of [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 10 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank 10 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average price changes... On day +0⅛ on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Argentina [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian Dev. Bank [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australia [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bergen, City of [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BNDE [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BMW Overseas [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Caisse Nat. Tele. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CCCE [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Copenhagen [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Council of Eur. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Elec. de France [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GZB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hilti [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Int.-Amer. Dev. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jutland Tele. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Tel. & T. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OKB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OKB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OKB 6 90	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oslo, City of [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Shikoku El. Pwr. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Stewag [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Voest-Alpine [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Bank [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average price changes... On day −0⅛ on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australia [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Average price changes... On day 0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Bell Canada 10¾ 86 C$	60	93⅛	93⅝	+0⅛	+0⅛	12.27
CIBC 13½ 85 C$	50	102⅝	103⅛	+0⅛	+0⅛	12.85
Cr. Foncier 10⅜ 84 C$	30	†90	91	0	+1	13.38
Fst. Can. Inv. 10 84 C$	50	92⅝	93⅛	+0⅜	+1	12.36
Hudson Bay 10½ 80 C$	60	90⅝	91⅛	0	−1½	12.23
Quebec 10¾ 86 C$	50	†91	93	0	+0½	12.22
R. Bk. Canada 10 86 C$	40	90⅝	91⅛	+0⅛	+0⅛	12.23
R. Bk. Canada 10 94 C$	40	88⅝	89⅛	+0⅛	−0⅛	11.65
Tordom Cpn. 13½ 85 C$	30	†102⅝	103⅛	0	+0⅛	12.69
Copenhagen 8¾ 91 EUA	20	†93	94	0	0	9.71
M. Bk. Dnmk. 9 91 EUA	25	†94	95½	+0½	+0½	9.76
SOFTE 8¾ 89 EUA	40	†93	94½	+10½	+10½	9.31
U. Bk. Nrwy. 9½ 90 EUA	18	†96¾	97¾	−0⅛	0	9.94
Algemene Bk. 8⅝ 84 Fl	75	97⅛	98⅛	+0⅛	+0⅛	8.77
Ned. Gasunie 8¾ 84 Fl	50	98⅞	99⅜	+0⅛	+0⅛	9.00
Ned. Middbk. 8¾ 84 Fl	75	96	96½	+0⅛	+0⅛	9.44
Norway 8¼ 84 Fl	100	97	97½	0	+0⅛	9.12
Norway 8¾ 84 Fl	100	97	97½	0	+0⅛	9.01
Philips Lamps 8¾ 84 Fl	75	94½	95	−1½	−1⅛	10.00
Air France 11 84 FFr	120	94⅞	95⅜	+0⅛	+0⅛	12.44
CECA 14⅛ 86 FFr	150	103¾	104½	+0⅛	+0⅛	13.24
Euratom 9⅞ 87 FFr	150	83⅞	84⅜	−0⅛	0	13.33
Finland 11 84 FFr	80	94⅞	95	+0⅛	+0⅛	12.81
Finland 11½ 89 FFr	70	91	91¾	+0⅜	+0½	13.11
Gaz de France 11 84 FFr	150	94⅝	95⅛	−0⅛	+0⅛	12.56
IBM France 11⅞ 84 FFr	120	96	96⅝	+0½	+0⅛	12.91
Renault 9¾ 85 FFr	100	84⅞	85⅝	+0⅛	−0⅛	13.94
Saint-Gobain 9¾ 86 FFr	130	83⅞	85⅛	−0⅛	+0⅛	13.70
Solvay et Cie 9¾ 87 FFr	125	81⅝	82⅞	−0⅛	+0⅛	13.89
Citicorp O/S 13½ 90 £	50	96½	97¼	+0⅛	+1	14.07
EIB 11½ 91 £	25	87½	88¼	0	+0⅛	13.88
Finance for Ind. 13 91 £	15	95⅞	96⅝	+0⅛	+1	13.66
Fin. for Ind. 12½ 89 £	30	94⅜	95⅛	0	+0⅛	13.52
Fin. for Ind. 14½ 88 £	20	101	101¾	+0⅛	+0⅛	14.16
Gen. Elec. Co. 12½ 89 £	50	94¾	95½	0	+0½	13.45
Swed. Exp. Cr. 15⅜ 85 £	20	102½	103½	+0⅜	+1⅛	14.33
Indonesia 8¾ 91 KD	7	†93	93½	0	0	9.76
Mitsubishi 7½ 84 KD	10	†91¼	92½	0	+0⅛	9.94
Norges Kom. 7½ 89 KD	12	†93⅜	93⅞	0	0	8.54
Occidental 8¾ 91 KD	7	†90¼	90¾	0	0	9.69
Akzo 9¾ 87 LuxFr	500	†92¾	93¾	+0⅛	+0½	10.58
Euratom 8 87 LuxFr	500	86¾	87¾	−1¼	0	10.83
Euratom 9¾ 88 LuxFr	500	98½	99½	+0⅛	+0½	9.92
EIB 9¾ 88 LuxFr	600	97½	98½	0	0	10.12
Volvo 9¾ 87 LuxFr	500	97¾	98⅜	−0⅛	−0⅛	10.17

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Allied Irish Bk. 5¾ 87	0¼	97⅛	98	2/7	15½	15.47
Banco di Roma Int. 6 87	0¼	99½	100	26/10	15.31	15.35
Bank of Ireland 5¾ 89	‡0¼	97½	98	21/5	16⅛	16.50
Bank of Tokyo 5⅜ 89	‡0¼	97⅝	98⅛	25/10	16.56	16.88
Barclays O/S Inv. 5 90	0⅛	97⅝	98⅛	13/6	14¼	14.56
Bergen Bk. A/S 6 89	‡0⅛	96⅞	97⅜	29/5	17⅛	17.76
Bque. Indo Suez [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.95
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16.16
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.07
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.72
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.92
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15.42
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.58
Ind. Bank Japan [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.59
LTCB Japan [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.50
LTCB Japan [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.55
Midland Int. Fin. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15.09
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.91
Nippon Credit [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.30
Nippon Credit [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.77
Royal Bk. Scot. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.71
Soc. C. de Bque. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.57
Sogenal [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.69
Standard Chart. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.71
Sweden [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.16
TVO Pwr. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.01
Williams & Glyn [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.45
Bq. E. d'Alg. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.82

Average price changes... On day 0 on week +0⅛

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
AGA Akt'bolag 7¾ 89	10/79	145	†118	120	0	−1.14
Ajinomoto [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	−2.80
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	35.86
Asahi Optical [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.12
Canon [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	−0.71
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.83
Credit Suisse [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.58
Daiei Inc. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	37.42
DDKK [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.92
Ensearch Fin. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	26.52
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.22
Nippon Seiko [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.63
Toshiba Cpn. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	−2.34
Union Bk. Switz. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.26
Fujitsu [illegible] DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.92
[illegible] DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	43.86
Tokyo Ld. Cp. [illegible] DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	41.57
Uny Co. [illegible] DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	47.96

BONDTRADE INDEX AND YIELD

	Medium term		Long term	
May 16	91.05	10.60	80.40	11.27
May 8	90.81	10.71	80.12	11.32
High '80	91.05	(16/5)	89.19	(2/1)
Low '80	86.32	(2/4)	71.54	(29/2)

EUROBOND TURNOVER (nominal value in $m)

	Cedel	Euroclear
U.S. $ bonds		
Last week	1,111.1	3,802.7
Previous week	1,879.8	3,672.4
Other bonds		
Last week	196.1	385.1
Previous week	244.0	300.9

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Arab Company for Trading Securities SAK; Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Bondtrade; Credit Commercial de France (Secs.) London; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; Dillon, Read, Overseas Corporation; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nesbitt Thomson; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Strauss Turnbull and Co.; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on May 16

NEW ISSUE *These securities having been sold, this announcement appears as a matter of record only.* MAY 1980

U.S. $100,000,000

Export Development Corporation

(An agent of Her Majesty in right of Canada)

Société pour l'expansion des exportations

(Mandataire de Sa Majesté du chef du Canada)

12¾% Notes Due 1987

Credit Suisse First Boston Limited

Wood Gundy Limited
Banque de Paris et des Pays-Bas
Daiwa Europe N.V.
Deutsche Bank Aktiengesellschaft
Salomon Brothers International
Westdeutsche Landesbank Girozentrale

Amsterdam-Rotterdam Bank N.V.
Banque Nationale de Paris
Dominion Securities Limited
Kredietbank N.V.
McLeod Young Weir International Limited
Merrill Lynch International & Co.
Orion Bank Limited
Société Générale de Banque S.A.
Swiss Bank Corporation (Overseas) Limited
Abu Dhabi Investment Company
Algemene Bank Nederland N.V.
American Express Bank International Group
A. E. Ames & Co. Limited
Arab Bank Investment Company Limited
Banca Commerciale Italiana
Bank of America International Limited
Bank Brussel Lambert N.V.
Bank of Tokyo International Limited
Bankers Trust International Limited
Banque Arabe et Internationale d'Investissement (B.A.I.I.)
Banque de l'Indochine et de Suez
Banque Internationale à Luxembourg S.A.
Banque Worms
Barclays International Group
Baring Brothers & Co., Limited
Bayerische Landesbank Girozentrale
Bayerische Vereinsbank
Bergen Bank
Berliner Handels- und Frankfurter Bank
Arnhold and S. Bleichroeder, Inc.
Blyth Eastman Paine Webber International Limited
Burns Fry Limited
Caisse des Dépôts et Consignations
Chase Manhattan Limited
Chemical Bank International Group
Christiania Bank og Kreditkasse
CIBC Limited
Citicorp International Group
Clariden Bank
Commerzbank Aktiengesellschaft
Continental Illinois Limited
County Bank Limited
Crédit Lyonnais
Creditanstalt-Bankverein
Dai-Ichi Kangyo Bank Nederland N.V.
Delbrück & Co.
Den Danske Bank af 1871 Aktieselskab
Den norske Creditbank
Deutsche Girozentrale –Deutsche Kommunalbank–
Dresdner Bank Aktiengesellschaft
Effectenbank-Warburg Aktiengesellschaft
European Banking Company Limited
First Chicago Limited
Fuji International Finance Limited
Genossenschaftliche Zentralbank AG Vienna
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Goldman Sachs International Corp.
Greenshields Incorporated
Hambros Bank Limited
Hessische Landesbank –Girozentrale–
Hill Samuel & Co. Limited
IBJ International Limited
Kansallis-Osake-Pankki
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)
Kuwait International Investment Co. s.a.k.
Kuwait Investment Company (S.A.K.)
Lazard Brothers & Co., Limited
Lévesque, Beaubien Inc.
Lloyds Bank International Limited
LTCB International Limited
Manufacturers Hanover Limited
Midland Doherty Limited
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
Morgan Guaranty Ltd.
National Bank of Abu Dhabi
Nesbitt, Thomson Limited
The Nikko Securities Co., (Europe) Ltd.
Nomura Europe N.V.
Norddeutsche Landesbank Girozentrale
Postipankki
Richardson Securities of Canada (U.K.) Limited
Rothschild Bank AG
N. M. Rothschild & Sons Limited
The Royal Bank of Canada (London) Limited
Sanwa Bank (Underwriters) Limited
Saudi International Bank (Al-Bank Al-Saudi Al-Alami Limited)
Scandinavian Bank Limited
Schröder, Münchmeyer, Hengst & Co.
J. Henry Schroder Wagg & Co. Limited
Skandinaviska Enskilda Banken
Smith Barney, Harris Upham & Co. Incorporated
Société Bancaire Barclays (Suisse) S.A.
Société Générale
Sumitomo Finance International
Svenska Handelsbanken
The Taiyo Kobe Bank (Luxembourg) S.A.
Toronto Dominion International Bank Limited
Trade Development Bank, London Branch
Union Bank of Finland Ltd.
Vereins- und Westbank Aktiengesellschaft
S. G. Warburg & Co. Ltd.
Williams, Glyn & Co.
Yamaichi International (Europe) Limited

NEW ISSUE *These securities having been sold, this announcement appears as a matter of record only.* MAY 1980

U.S. $100,000,000

GMAC Overseas Finance Corporation N.V.

13⅜% Notes Due April 15, 1985

unconditionally guaranteed by

General Motors Acceptance Corporation

Credit Suisse First Boston Limited

Kuwait Investment Company (S.A.K.)
Banque Bruxelles Lambert S.A.

Abu Dhabi Investment Company
Algemene Bank Nederland N.V.
Amsterdam-Rotterdam Bank N.V.
Banca del Gottardo
Bank Gutzwiller, Kurz, Bungener (Overseas) Limited
Banque Française du Commerce Extérieur
Banque Générale du Luxembourg S.A.
Banque de l'Indochine et de Suez
Banque Nationale de Paris
Banque Privée de Gestion Financière
Barclays International Group
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Bayerische Vereinsbank
Berliner Handels- und Frankfurter Bank
B.S.L. Underwriters Limited
Cazenove & Co.
Centrale Rabobank
Chemical Bank International Group
Compagnie de Banque et d'Investissements
Continental Illinois Limited
County Bank Limited
Crédit Lyonnais
Creditanstalt-Bankverein
Deutsche Girozentrale –Deutsche Kommunalbank–
DG Bank Deutsche Genossenschaftsbank
Effectenbank-Warburg Aktiengesellschaft
Eurogest S.p.A.
First Chicago Limited
Genossenschaftliche Zentralbank AG Vienna
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Handelsbank N.W. (Overseas) Limited
Hessische Landesbank –Girozentrale–
IBJ International Limited
Istituto Bancario San Paolo di Torino
Kredietbank N.V.
Lloyds Bank International Limited
Marine Midland Limited
Samuel Montagu & Co. Limited
Morgan Guaranty Ltd.
The Nikko Securities Co., (Europe) Ltd.
Norddeutsche Landesbank Girozentrale
Nordic Bank Limited
Orion Bank Limited
The Royal Bank of Canada (London) Limited
Scandinavian Bank Limited
Schröder, Münchmeyer, Hengst & Co.
Société Bancaire Barclays (Suisse) S.A.
Société Générale
Société Générale Alsacienne de Banque
Société Générale de Banque S.A.
Sparekassen SDS
Swiss Bank Corporation (Overseas) Limited
Trade Development Bank, London Branch
Vereins- und Westbank Aktiengesellschaft
Wood Gundy Limited

NEW ISSUE *These securities having been sold, this announcement appears as a matter of record only.* MAY 1980

U.S. $40,000,000

Banamex

Banco Nacional de México, S.A.

(A private banking institution incorporated in the United Mexican States with limited liability)

Floating Rate Capital Notes Due 1987

Credit Suisse First Boston Limited

Banque Nationale de Paris
Creditanstalt-Bankverein
Deutsche Bank Aktiengesellschaft
European Banking Company Limited
Merrill Lynch International & Co.
National Bank of Abu Dhabi
Nomura Europe N.V.
The Royal Bank of Canada (London) Limited
Société Générale de Banque S.A.

Alahli Bank of Kuwait (K.S.C.)
A. E. Ames & Co. Limited
Amsterdam-Rotterdam Bank N.V.
Arab Bank Investment Company Limited
Banca Commerciale Italiana
Banco de Bilbao
Banco di Roma
Banco Urquijo Hispano Americano Limited
Bank of America International Limited
Bank Brussel Lambert N.V.
Bank für Gemeinwirtschaft Aktiengesellschaft
Bank of Helsinki Ltd.
Bank Julius Baer International Limited
Bank Leu International Ltd.
Bank Mees & Hope NV
Bank of Tokyo International Limited
Bankers Trust International Limited
Banque Arabe et Internationale d'Investissement (B.A.I.I.)
Banque Continentale du Luxembourg S.A.
Banque Française du Commerce Extérieur
Banque Générale du Luxembourg S.A.
Banque de l'Indochine et de Suez
Banque Internationale à Luxembourg S.A.
Banque de Neuflize, Schlumberger, Mallet
Banque Privée de Gestion Financière
Banque de l'Union Européenne
Banque Worms
Barclays International Group
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Bayerische Landesbank Girozentrale
Bergen Bank
Berliner Handels- und Frankfurter Bank
Arnhold and S. Bleichroeder, Inc.
Cazenove & Co.
Centrale Rabobank
Chase Manhattan Limited
Chemical Bank International Group
Christiania Bank og Kreditkasse
CIBC Limited
Citicorp International Group
Clariden Bank
Copenhagen Handelsbank
County Bank Limited
Crédit Agricole
Crédit Industriel et Commercial
Crédit Lyonnais
Credit Suisse First Boston (Asia) Limited
Credito Italiano
Dai-Ichi Kangyo Bank Nederland N.V.
Daiwa Europe N.V.
Den Danske Bank af 1871 Aktieselskab
Deutsch-Südamerikanische Bank Aktiengesellschaft
DG Bank Deutsche Genossenschaftsbank
Dillon, Read Overseas Corporation
Effectenbank-Warburg Aktiengesellschaft
Euromobiliare S.p.A.
Robert Fleming & Co. Limited
Fuji International Finance Limited
Genossenschaftliche Zentralbank AG Vienna
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Goldman Sachs International Corp.
Groupement des Banquiers Privés Genevois
Hessische Landesbank –Girozentrale–
IBJ International Limited
Istituto Bancario San Paolo di Torino
Kansallis-Osake-Pankki
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Kredietbank N.V.
Kredietbank S.A. Luxembourgeoise
Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)
Kuwait International Investment Co. s.a.k.
Lazard Frères et Cie
Lloyds Bank International Limited
LTCB International Limited
Manufacturers Hanover Limited
McLeod Young Weir International Limited
Mitsubishi Bank (Europe) S.A.
Mitsui Finance Europe Limited
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
Morgan Guaranty Ltd.
Morgan Stanley International
The National Commercial Bank Saudi Arabia
Nederlandsche Middenstandsbank N.V.
Nesbitt, Thomson Limited
The Nikko Securities Co., (Europe) Ltd.
Nippon European Bank S.A.
Sal. Oppenheim jr. & Cie.
Orion Bank Limited
Overseas Union Bank Limited
Pierson, Heldring & Pierson N.V.
Privatbanken Aktieselskab
Rothschild Bank AG
N. M. Rothschild & Sons Limited
Salomon Brothers International
Sanwa Bank (Underwriters) Limited
Scandinavian Bank Limited
Schröder, Münchmeyer, Hengst & Co.
J. Henry Schroder Wagg & Co. Limited
Skandinaviska Enskilda Banken
Smith Barney, Harris Upham & Co. Incorporated
Société Bancaire Barclays (Suisse) S.A.
Société Générale
Société Générale Alsacienne de Banque
Sparekassen SDS
Strauss, Turnbull & Co.
Sumitomo Finance International
Svenska Handelsbanken
Trade Development Bank, London Branch
J. Vontobel & Co.
M. M. Warburg-Brinckmann, Wirtz & Co.
S. G. Warburg & Co. Ltd.
Williams, Glyn & Co.
Wood Gundy Limited
Yamaichi International (Nederland) N.V.

NEW ISSUE *These securities having been sold, this announcement appears as a matter of record only.* MAY 1980

U.S. $75,000,000

J. C. Penney Overseas Capital N.V.

(Incorporated with limited liability in the Netherlands Antilles)

13¼% Guaranteed Notes Due 1985

Guaranteed unconditionally as to principal, premium, if any, and interest by

J. C. Penney Financial Corporation

Credit Suisse First Boston Limited

Alahli Bank of Kuwait (K.S.C.)
Algemene Bank Nederland N.V.
Algemene Bank Nederland (Schweiz)
Amsterdam-Rotterdam Bank N.V.
Bache Halsey Stuart Shields Incorporated
Banca Commerciale Italiana
Banca del Gottardo
Bank of America International Limited
The Bank of Bermuda, Limited
Bank Cantrade Switzerland (C.I.) Limited
Bank Gutzwiller, Kurz, Bungener (Overseas) Limited
Bank of Helsinki Ltd.
Bank Julius Baer International Limited
Bank Leu International Ltd.
Bank Mees & Hope NV
Bank of Tokyo International Limited
Banque Bruxelles Lambert S.A.
Banque Française du Commerce Extérieur
Banque de l'Indochine et de Suez
Banque Internationale à Luxembourg S.A.
Banque Nationale de Paris
Banque de Neuflize, Schlumberger, Mallet
Banque de Paris et des Pays-Bas
Banque de Paris et des Pays-Bas (Suisse) S.A.
Banque Populaire Suisse S.A. Luxembourg
Banque Privée S.A.
Banque Rothschild
Banque Scandinave en Suisse
Banque Worms
Barclays International Group
Baring Brothers & Co., Limited
Bayerische Hypotheken- und Wechsel-Bank
Bayerische Vereinsbank
Bergen Bank
Berliner Handels- und Frankfurter Bank
Arnhold and S. Bleichroeder, Inc.
Blyth Eastman Paine Webber International Limited
B.S.L. Underwriters Limited
Caisse des Dépôts et Consignations
Cazenove & Co.
Centrale Rabobank
Chase Manhattan Limited
Christiania Bank og Kreditkasse
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Daiwa Europe N.V.
Delbrück & Co.
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Den norske Creditbank
DG Bank Deutsche Genossenschaftsbank
Dillon, Read Overseas Corporation
Dresdner Bank Aktiengesellschaft
Drexel Burnham Lambert Incorporated
Effectenbank-Warburg Aktiengesellschaft
Eurogest S.p.A.
Euromobiliare S.p.A.
European Banking Company Limited
Finter Bank Zürich
First Chicago Limited
Robert Fleming & Co. Limited
Fuji International Finance Limited
Genossenschaftliche Zentralbank AG Vienna
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Goldman Sachs International Corp.
Groupement des Banquiers Privés Genevois
Hambros Bank Limited
Handelsbank N.W. (Overseas)
Hill Samuel & Co. Limited
IBJ International Limited
Internationale Genossenschaftsbank A.G.
Istituto Bancario San Paolo di Torino
Kidder, Peabody International Limited
Kleinwort, Benson Limited
Kredietbank N.V.
Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)
Kuwait International Investment Co. s.a.k.
Kuwait Investment Company (S.A.K.)
Lazard Brothers & Co., Limited
Lazard Frères et Cie
Lloyds Bank International Limited
LTCB International Limited
Manufacturers Hanover Limited
Merrill Lynch International & Co.
Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited
Morgan Guaranty Ltd.
Morgan Stanley International
National Bank of Abu Dhabi
Nederlandse Credietbank N.V.
The Nikko Securities Co., (Europe) Ltd.
Nippon European Bank S.A.
Nomura Europe N.V.
Nordic Bank Limited
Orion Bank Limited
Pierson, Heldring & Pierson N.V.
PKbanken
Privatbanken Aktieselskab
Rothschild Bank AG
N. M. Rothschild & Sons Limited
The Royal Bank of Canada (London) Limited
Salomon Brothers International
Sanwa Bank (Underwriters) Limited
A. Sarasin & Cie
Scandinavian Bank Limited
Schröder, Münchmeyer, Hengst & Co.
J. Henry Schroder Wagg & Co. Limited
Skandinaviska Enskilda Banken
Smith Barney, Harris Upham & Co. Incorporated
Société Bancaire Barclays (Suisse) S.A.
Société Générale
Société Générale de Banque S.A.
Strauss, Turnbull & Co.
Sumitomo Finance International
Svenska Handelsbanken
Swiss Bank Corporation (Overseas) Limited
The Taiyo Kobe Bank (Luxembourg) S.A.
Trade Development Bank, London Branch
Union Bank of Switzerland (Securities) Limited
Verband Schweizerischer Kantonalbanken
Vereins- und Westbank Aktiengesellschaft
J. Vontobel & Co.
S. G. Warburg & Co. Ltd.
Westdeutsche Landesbank Girozentrale
Williams, Glyn & Co.
Wood Gundy Limited
Yamaichi International (Europe) Limited

LEGAL NOTICES

IN THE MATTER OF
DUBA COMPONENTS LIMITED
AND IN THE MATTER OF
THE COMPANIES ACT 1948

NOTICE IS HEREBY GIVEN that the creditors of the above-named Company, which is being voluntarily wound up, are required, on or before the 19th day of June, 1980, to send in their full Christian and surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any), to the undersigned Keith David Goodman, FCA, of Messrs. Leonard Curtis & Co., 3/4 Bentinck Street, London W1A 3BA, the Liquidator of the said Company and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come and and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 8th day of May 1980.
K. D. GOODMAN Liquidator

TRAVEL

PERSONAL

APPOINTMENTS

Senior post at BET

Viscount Colville of Culross has been appointed a deputy chairman of the Board of the BRITISH ELECTRIC TRACTION COMPANY. Lord Colville first became connected with BET in July 1961, when he was appointed a director of Associated-Rediffusion.

★

Mr. Alan Scholefield has been appointed chief accountant of PILKINGTON FLAT GLASS and of the Pilkington Flat Glass Europe Division from July 1.

★

Mr. David O. Hayward is to become chief executive officer of LAMBETH BUILDING SOCIETY at the end of May. He will succeed Mr. C. J. Wagner, who will retire from that position but will continue as a director.

★

The Secretary for Energy has appointed Mr. Nigel Wicks as a part-time member of the BRITISH NATIONAL OIL CORPORATION. He replaces Mr. Fred Jones, who has retired from the Civil Service.

★

Mr. Malcolm Fifer, managing director of Leicester Photo-Litho Service, has been elected president of the GRAPHIC REPRODUCTION FEDERATION. First vice-president is Mr. Alan Burgess and second vice-president, Mr. Bruce Harvey. Mr. Tony Owen has been elected honorary treasurer.

★

Mr. R. W. D. McKelvie, Mr. J. S. Daniel and Mr. I. M. Kirk have joined the partnership of FIELDING, NEWSON-SMITH AND CO., stockbrokers, from today.

★

Mr. James R. Cowan, director of the Scottish Area of the National Coal Board, and also member of the main Board, has been appointed chairman of the SCOTTISH BRICK CORPORATION. This company is owned jointly by the National Coal Board, Thomas Tilling and Aurora Holdings in each case through subsidiary companies.

★

Mr. Leslie Andrews has been appointed commercial director of R. MANSELL, building contractors. He was previously in a similar position with Rush and Tompkins.

★

Mr. John F. Kidston has been appointed managing director of Halma subsidiary STANDARD ENGINEERING COMPANY, manufacturer of footwear machinery. He was sales director for 3½ years.

★

Mr. James Lahore, currently Reader in Law at Monash University, Australia, has been appointed the first Herchel Smith Professor of Intellectual Property Law in the Faculty of Laws at QUEEN MARY COLLEGE, University of London. The chair, the first of its kind in the UK, has been established under an endowment of some £400,000 to the College by an educational foundation, of which Dr. Herchel Smith is a leading benefactor. Intellectual property law is concerned with the legal protection of know-how, and embraces the increasingly complex and important areas of patents, copyright, trademarks and law relating to the confidentiality of trade secrets.

★

Mr. Alf Shipman has been appointed financial controller of the LONDON CO-OPERATIVE SOCIETY. He succeeds Mr. Francis McKay who resigned recently. Mr. Shipman joined the Society in 1937 at the age of 14 as an office boy/clerk at the Central Trade Office.

★

Captain Jorge Otté has been appointed managing director of CHARTCLASS, a newly-formed company specialising in oilfield and marine charters, marine project consulting, and the sale and purchase of oilfield materials and equipment.

★

Mr. K. L. Carter, vice president and general manager of HAWKER SIDDELEY SWITCHGEAR INC., Montreal, Canada, has been appointed a director of the company.

★

The TORO COMPANY'S international group has promoted Mr. Edward B. Reilly to the post of director of marketing for Europe for the company's powered machinery for lawn and garden care.

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Knowsley (051 548 6555)	14¼	½-year	1,000	1
Redbridge (01-478 3020)	14¼	½-year	200	2-3
Redbridge (01-478 3020)	14¼	½-year	200	5-6

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	International Heating Ventilating and Air Conditioning Exhibition (021-705 6707)	NEC, Birmingham
May 19—23	Self-Service Display Equipment and Shop fitting Exhibition—SHOPEXINT (01-540 1101)	Olympia
May 18—22	International Word Processing Exhibition and Conference (01-405 6233)	Wembley Conference Centre
May 20—23	Chelsea Flower Show (01-834 4333)	Chelsea
May 20—23	International Materials Handling (021-705 6707)	NEC, Birmingham
June 2—7	Fine Art and Antiques Fair (01-385 1200)	Olympia
June 6—14	Sunday Times Business to Business Exhibition (01-407 4046)	Earls Court
June 8—11	June Carpet Fair (01-236 0911)	Kensington, W8
June 10—12	Institute of Housing Annual Conference and Exhibition (01-242 3267)	Exhibition Centre, Harrogate
June 10—13	Photo-Sound 80 (0232 32890)	Kings Hall, Belfast
June 11—14		
June 14—22	International Job Fair — OPPORTUNITIES (021-705 6707)	Earls Court
June 16—20	International Solid Waste Congress and Exhibition (01-580 5324)	Wembley Conference Centre
June 24	Intel. Microcomputer Fair (0793 26101)	Wembley Conference Centre

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
May 19—21	Mint Directors Conference and Exhibition (01-486 1951)	Utrecht
May 20—23	International Petroleum Exhibition—PETROTECH	Amsterdam
May 26—30	International Rubber and Plastics Exhibition (021-705 6707)	Singapore
May 27—30	Petroleum and Marine Environment International Conference and Exhibition	Monte Carlo
June 3—6	Reprographics Exhibition—REPROGRAPHICS 80	Basle
June 5—9	International Carpet and Floor Coverings Exhibition (01-439 3964)	Paris
June 9—14	BIAM—International Machine Tool Exhibition	Zagreb
June 10—14	Educational Equipment Exhibition—VISODATA (01486 1051)	Munich
June 17—19	Advanced Communications Exhibition—EURO-COMM 80 (01540 1101)	Copenhagen
June 19—22	Solar Energy Exhibition	Genoa
June 23—26	World Frozen Food Exhibition (01-629 8817)	Monte Carlo
June 23—26	ASEE Educational Resources Exhibition (01-437 0678)	Massachusetts
June 28-July 6 ...	Motor Show, Components and Accessories Exhibition	Braga
July 2—6	Audio Visual Exhibition AUVI (021-705 6707)	Singapore
July 7—11	International Training and Educational Symposium and Exhibition—INSTRUCTA (01-486 1951)	Johannesburg

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
Current	University of Bradford Management: Export Marketing (Bradford 42299) (until May 23)	Heaton Mount, Bradford
May 19—20	Robert S. First: Hospital Supplies in Europe	Brussels
May 19	International Advertising Association: 27th World Congress (01-821 0509)	Durban
May 20—21	Oyez: IBC Control in Computerised Accounting Systems (01242 2481)	Inn on the Park, W1
May 20—23	RAI Gebouw B.V.: Second European Petroleum and Gas Conference	Amsterdam
May 20	SMMT: EEC—Friend or Foe? (01-235 7000)	Cafe Royal, W1
May 21—23	Robert Daum and Associates: Understanding and Underwriting the U.S. Market	Doral Country Club, Florida
May 23	Wales International Management Centre: Effective Strategic Planning (0222 21666)	Basingstoke
May 27—30	Scotwork: Managing Negotiations (041-204 2186)	Hampshire
May 27—28	Reinforplast: 1980 Symposium	Brussels
May 28	Calus: The Taxation Implications of Development (0734 861101)	Mount Royal Hotel, W1
May 29—30	ICHCA: Developing Efficient Cargo Handling Systems for International and Intra-Regional Trade (01-828 3611)	Athens
May 29—30	Frost and Sullivan: Electronic Mail (01-486 8377)	Cumberland Hotel, W1
June 1—6	University of Bradford: Production Scheduling Workshop (Bradford 491773)	Heaton Mount, Bradford
June 2—3	FT Conference: World Banking (01-621 1355)	Singapore
June 2—3	AMR International: U.S. Financial Reporting and Disclosure Requirements for Multinational Corporations (01-262 2732)	Grosvenor House Hotel, W1
June 4	Gower Conferences: Business Strategy for Strong Sterling (01-242 9485)	Royal Lancaster Hotel, W2
June 4	CCC: Company Pension Rights—Consequence of Employee's Changing Jobs (01-222 6362)	Tara Hotel, Kensington
June 5—6	AMD: Improving Results through Time Management (07535 56047)	Royal Garden Hotel, W8
June 8—13	Brunel University: Experimental methods for management training and development (0895 56461)	Uxbridge
June 9—10	AMD: Communication and Confidence Development for Managers (07535 56047)	Gloucester Hotel, SW7
June 10—11	INFOTECH: Which Word Processor? (0628 [illegible])	Tara Hotel, Kensington
June 11—13	AMR International: The Management of Projects (01-262 2732)	Browns Hotel, W1
June 13—14	PCL: Technology and Adjustment to Change at Firm Level — German Swedish and UK experience (01-486 5811)	Marylebone Road, NW1
June 17—18	ASM: Current Cost Budgetary Control (01-385 1992)	Europa Hotel, W1

WEEK'S FINANCIAL DIARY

TODAY
COMPANY MEETINGS—
Anchor Chemical, Piccadilly Hotel, Manchester, 11.30
Fisher (James), Victoria Park Hotel, Barrow-in-Furness, 12.00
Glaxo, Pavilion, 11.12, West George St., Glasgow, 12.00
Hilton Footwear, The Holiday Inn, St. Nicholas Circle, Leicester, 12.00
Home Charm, Great Eastern Hotel, E.C., 2.30
Metalrax, Slough & Harrow Hotel, Hagley Rd., Edgbaston, Birmingham, 11.45
Quick (H. J.), Jubilee House, 676 Chester Rd., Old Trafford, Manchester, 11.00
Royce Grp., The Compleat Angler Hotel, Marlow, Bucks, 11.30
BOARD MEETINGS—
Finals—
Blackwood Hodge
Cakebread Robey
[illegible]
Interims—
Australia and N. Zealand Banking
Cameron and Gen. Secs.
[illegible]
Management Agency and Music
[illegible]
DIVIDEND & INTEREST PAYMENTS—
Barclays Bank 10.25p
Bowater (C. H.) 2.2p
[illegible]
Treasury 10½pc 1999 5¼pc
Wardle (Bernard) 0.87p
TOMORROW
COMPANY MEETINGS—
Ascot, Blacon, Great Western Royal Hotel, Paddington, W., 12.30
[illegible]
Bank of Scotland, Bank of Scotland House, The Mound, Edinburgh, 12.15
[illegible]
WEDNESDAY, MAY 21
COMPANY MEETINGS—
[illegible]
BOARD MEETINGS—
[illegible]
DIVIDEND & INTEREST PAYMENTS—
[illegible]
THURSDAY, MAY 22
COMPANY MEETINGS—
[illegible]
BOARD MEETINGS—
[illegible]
DIVIDEND & INTEREST PAYMENTS—
[illegible]
FRIDAY, MAY 23
COMPANY MEETINGS—
[illegible]
BOARD MEETINGS—
[illegible]
DIVIDEND & INTEREST PAYMENTS—
[illegible]
Photax (London) Ord. 2p
Rotork 1p
Royal Bank of Canada 60cts.
Royal Insurance Ord. Units 13.25p
Sunbeam Wolsey 3p. Do. 8pcPf. 2.8pc.
Tilling (Thomas) 4p
Treasury 13¾pc 1993 6⅞pc.
Unicorn Inds. 4.64p
Utico Ord. & Dfd. 14.5cts.
Do. Ord. & Dfd. 2.5cts.
Zenith Carburetter A (Reg.) 1.75p. Do. A (Br.) 1.75p
SATURDAY, MAY 24
DIVIDEND & INTEREST PAYMENTS—
Grampian 3p
Guest Keen & Nettlefolds 13.5545p
Variable Rate Treasury 1983 £6.07
SUNDAY, MAY 25
DIVIDEND & INTEREST PAYMENTS—
Greater London 12½pc 1982 6¼pc.
Hounslow Variable Rate Red. 1982 £6.72
Metropolitan Water Board Chelsea W.W. 2½pcDb. 1897 1¼pc.

INSURANCE

New home in country for insurance college

BY OUR INSURANCE CORRESPONDENT

LAST TUESDAY the Chartered Insurance Institute's relocated College of Insurance at Churchill Court, Sevenoaks, was officially opened by the institute president.

The college was established in 1957 and until the end of last year flourished in a large former suburban residence at Surbiton. Towards the end of the 1970s, the CII began looking for a larger, potentially residential and, preferably, semi-country Home Counties seat with reasonably quick access to the City of London.

Churchill Court, built in 1926, and used since the war by the Royal British Legion as a convalescent home, was the CII's choice, though the house and outbuildings are at present inadequate for the desired residential accommodation, and students who cannot commute daily to the college have to be boarded out—usually at Tunbridge Wells.

The college once concentrated on introductory courses. Over the years the emphasis has shifted, mostly to technical and managerial tuition for insurance men and women who have a good grounding in insurance, both in practice and in professional examinations. Over 100 courses a year are now organised, lasting from a few days to three weeks. Many attract overseas visitors; exceptionally, a six-week course for overseas visitors is now in progress.

Churchill Court can accommodate some 75 students—though normally the principal is less ambitious. There are lecture and syndicate rooms enough, and well organised kitchen facilities for mid-day meals and refreshments.

Ten tutors and consultants are now employed at Sevenoaks, as well as the principal, and there are also one or two unfilled vacancies. But the college does not teach solely through its permanent staff; the principal has a panel of expert insurance practioners on whom he calls, to supply detailed instruction on current market problems and attitudes, and he is always happy to have new volunteers who can make available half-days or days, subject of course to adequate notice.

Building equipment group to spend £6.75m

BY HAZEL DUFFY, INDUSTRIAL CORRESPONDENT

J. I. CASE, the American-owned construction equipment group, has announced that total investment at its new plant under construction at Redruth, Cornwall, will be £6.75m.

It is expected that the plant will start production in the middle of next year, when it will employ 200, which could go up to about 500 when the factory reaches its maximum potential.

Case says that the plant is being built "to meet increasing demand for our range of construction equipment, including crawler loaders and dozers."

It will produce 500 units a year in the early stages, which could double within a period of five years. The plant will export a high percentage of its production, and will complement Case's factory in France which makes the backhoe loader, and is also being expanded.

Mr. John P. Diesel, president of Tenneco, Case's parent company, said recently that Case sales in Europe last year totalled $415m. The company's trading profit amounted to $12.8m in the region, making it one of the more successful multi-national producers of construction equipment in Europe.

About two-thirds of Case's output is in construction equipment and one-third agricultural equipment. It claims to be the world leader in backhoe loaders, and specialises in the small to medium-sized equipment which is particularly suited to European markets.

Diesel said that Case's acquisition of a 40 per cent stake in the French Poclain group has been a big factor enabling it to "achieve many of its European objectives ahead of schedule."

Poclain, the world leader in hydraulic excavators, made a profit of $20m last year. In 1977 it had made a loss of $40m. Over the past year, Case has forged closer links with Poclain in the marketing and distribution of its products in certain European markets.

Case's new factory at Redruth will bring in engines from David Brown in the U.K., also part of the Tenneco group, and transmissions will be brought in from the U.S.

Diesel also reported that Case, which formed a joint venture with the Cummins Engines group last year for the development of a new small diesel engine, is looking for a new site in the U.S. for the production of the engine. Case will take more than half of the output of the engine in the early years. The venture represents Cummins's entry into the manufacture of this size of engine.

This document includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Oakwood Group Limited ("Oakwood"). The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the Directors accept responsibility accordingly.
Copies of these particulars, having attached thereto the documents referred to below, have been delivered to the Registrar of Companies for registration.
Application has been made to the Council of The Stock Exchange for the whole of the issued Ordinary share capital of Oakwood to be admitted to the Official List.

OAKWOOD GROUP LIMITED

(Incorporated in England under the Companies Act 1948. No. 808514)

These particulars are issued in connection with a placing by CAPEL-CURE MYERS LIMITED of 500,000 Ordinary shares of 25p each at 83p per share.

SHARE CAPITAL

Authorised		Issued and Fully Paid
£650,000	in 2,600,000 Ordinary shares of 25p each.....	£500,000

At the close of business on 2nd May, 1980, Oakwood and its subsidiaries had outstanding bank overdrafts and letters of credit of £468,741 secured by a mortgage on a property of Oakwood and fixed and floating charges from Clough Smith Limited and Frank Love Limited. At the same date Oakwood and its subsidiaries had bank credit balances of £209,125. Save as aforesaid and apart from inter-company liabilities neither Oakwood nor any of its subsidiaries had outstanding on 2nd May, 1980 any mortgages, charges or debentures, any loan capital issued or created but unissued or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or guarantees or other material contingent liabilities.

DIRECTORS:
EDWARD DILLINGHAM CHAMBERS, F.C.A. *(Chairman and Managing Director)*,
Clough Smith House, Stephenson Way, Crawley, West Sussex RH10 1NN.
GERALD FRANK MANN, F.C.A.
45/47 Westminster Bridge Road, London SE1 7JA.
GEOFFREY ALAN COLESHILL.
Clough Smith House, Stephenson Way, Crawley, West Sussex RH10 1NN.

SECRETARY AND REGISTERED OFFICE:
DAVID JOHN COKER, F.C.I.S., M.B.I.M.,
Clough Smith House, Stephenson Way, Crawley, West Sussex RH10 1NN.

BANKERS:
NATIONAL WESTMINSTER BANK LIMITED, 2 St. Alphage Highwalk, London Wall, London EC2Y 5EP.

SOLICITORS TO THE PLACING AND JOINT SOLICITORS TO THE COMPANY:
TRAVERS SMITH, BRAITHWAITE & CO., 6 Snow Hill, London EC1A 2AL.

JOINT SOLICITORS TO THE COMPANY:
STEGGLES PALMER, 2 Bedford Row, London WC1R 4BU.

AUDITORS AND REPORTING ACCOUNTANTS:
SPICER AND PEGLER, Chartered Accountants, St. Mary Axe House, 56-60 St. Mary Axe, London EC3A 8BJ.

STOCKBROKERS:
CAPEL-CURE MYERS LIMITED, Bath House, Holborn Viaduct, London EC1A 2EU and at The Stock Exchange.

REGISTRARS AND TRANSFER OFFICE:
NATIONAL WESTMINSTER BANK LIMITED, P.O. Box 82, 37 Broad Street, Bristol BS99 7NH.

Introduction

Oakwood is a holding company with two operating subsidiaries. Clough Smith Limited ("Clough Smith") and Frank Love Limited ("Frank Love"), principally engaged in civil and electrical engineering and the wholesale distribution of water fittings, sanitaryware and associated products respectively. The Ordinary share capital of Clough Smith is 88.8 per cent owned by Oakwood, Frank Love being a wholly-owned subsidiary. Oakwood was incorporated on 10th June, 1964 but did not operate until 1st January, 1972 when it acquired Lombard Holdings Limited and its subsidiaries, including Clough Smith and Frank Love, from Lombard North Central Limited. Certain of the subsidiaries have been sold, leaving Oakwood with its two operating subsidiaries and certain other subsidiaries which are no longer trading.

History and Business

Clough Smith

Clough Smith was incorporated on 15th June, 1910 and now provides a comprehensive service covering a wide variety of electrical and associated civil engineering work including overhead transmission lines, wood pole and underground cable distribution systems, the installation of railway cable routes and associated cable laying in conjunction with substantial resignalling and telecommunication schemes, communication structures, street lighting, internal and external floodlighting systems and airport runway and approach lighting systems.

In the early years the main activity was the conversion of tramways from rail to overhead power supply and this later led to contracts for the installation of trolleybus systems after the First World War. Trenching and cable laying work was first undertaken in the 1920s for tramway companies when new regulations required rail earths to be buried. Cable laying techniques were further developed in the 1930s and during this period Clough Smith carried out an increasing amount of this work for the G.P.O.

During the Second World War business was concentrated on power distribution schemes for R.A.F. stations and electrical systems in ordnance factories. Since then Clough Smith has been involved in the development of large scale distribution schemes for Area Electricity Boards and the Central Electricity Generating Board and for electricity authorities in East Africa, the Middle East and the Far East. Amongst these were the extensive electrification of the island of Bali and a 46 kilometre double circuit transmission line in Jordan. Other notable overseas contracts have included cabling and electrical installations for hydro-electricity projects. Clough Smith has also been involved with the modernisation of railway signalling systems, the erection of television and microwave masts and the development and maintenance of electrical installations at military establishments and docks.

Clough Smith was one of the pioneers of airport runway lighting systems beginning with Manchester Airport in 1938 and has recently been responsible for installations at Glasgow Airport and various military establishments.

In 1978 Clough Smith was awarded a £4.3 million contract in Kenya for the design, supply and installation of switchgear, transformers and cabling and 50 kilometres of overhead transmission lines as part of a hydro-electric and irrigation scheme which is due to be completed in 1981. The Company has won a further contract in Kenya valued at £500,000 to dismantle and re-assemble a transmission line.

Clough Smith's employees include specialists such as electricians, cable jointers, linesmen and steel erectors supplemented as necessary by specialist sub-contractors.

The split of turnover between home and overseas customers and between the types of work undertaken differs from year to year. The three main areas of the Company's present activities are overhead transmission lines, cabling and electrical distribution systems and railway cabling work. Contracts are generally obtained by open tender and projects in hand currently include those in Kenya referred to above, cabling and distribution contracts for various Electricity Boards and other public undertakings in the United Kingdom and work on the Victoria re-signalling scheme for British Rail.

Currently the Company has an order book of some £6.7 million which includes an estimated amount of £2.3 million in respect of contracts for varying periods with Electricity Boards and other public undertakings. All contracts for which the programme of works extends for longer than 12 months include inflation clauses. The Directors consider this order book to be at a satisfactory level.

Frank Love

Frank Love is one of the company's largest stockists and distributors of water fittings and sanitaryware to builders' merchants and other retail outlets.

The business was founded in 1908 by Mr. Frank Love as a wholesaler of plumbers' brassfoundry and associated fittings which were supplied to builders' merchants and ironmongers from a warehouse in Southwark, London. By 1922 the business had expanded into additional premises at Bermondsey and a catalogue was introduced which became a handbook in the trade. It was decided to centralise the business in 1930 with a move to premises in Great Guildford Street, Southwark, and when these were destroyed in 1940, the newly-formed Company acquired the business and leased premises at nearby Westminster Bridge Road. The freehold of the property was later purchased and the premises are still occupied by the Company.

In September, 1976 Frank Love opened a modern depot in Bristol of 5,000 sq. ft. which was used mainly to distribute baths and sanitaryware. Due to a rapid increase in turnover the depot was moved to a larger leasehold warehouse in Bristol with storage space extending to 14,500 sq. ft. which became operational in May, 1978.

The Company stocks a comprehensive range of non-ferrous and plastic water fittings sanitaryware for supply to builders' merchants, do-it-yourself outlets and selected heating engineers. The success of the business is based on the provision of a good customer service by supplying from stock a wide range of products with prompt delivery. There are approximately 2,500 regular customers and each of the three largest customers accounted for less than 5 per cent of turnover in the last financial year. The range of products covers fittings for copper and plastic tube, plumbers' brassfoundry including stopcocks, gate valves and chromium-plated taps and mixing valves, plastic and chromium-plated waste fittings, cisterns, copper and plastic tube, closet seats and accessories.

Frank Love also supplies a leading range of complete bathroom suites, separate shower units and imported pressed steel enamel-finished baths and since September, 1979 has been distributing kitchen furniture. The Company has continually up-dated its stock lines to meet the changing requirements of customers, and in consequence the number of lines has approximately doubled to 7,000 over the last 10 years and the value of sales has quadrupled in that period. A number of alternative sources of supply exist for all the major product lines sold by Frank Love although in the last financial year three suppliers were responsible for supplies leading to approximately 65 per cent of all sales. The Company has not experienced any major disruption to supplies.

Sales representatives cover each of seven regions together comprising England and Wales south of the Humber, the Isle of Man and the Channel Islands. Both the London and Bristol depots operate their own distribution service for deliveries to customers within their area while goods for customers further afield are delivered by carrier.

Sales of standard products are assisted by the Company's extensive catalogue, a new edition of which is about to be published. Bathroom suites, shower units and kitchen furniture are sold through promotional material supplied by the manufacturers.

Negotiations are at present at an advanced stage for the lease of a new warehouse of 5,000 sq. ft. at Camberwell within 2 miles of the Head Office. This will be used for the distribution of baths, sanitaryware and kitchen furniture, and will extend the range of products and service available to customers in London and the Home Counties.

MANAGEMENT AND STAFF

Directors

Particulars of the Directors of Oakwood and the two operating subsidiaries are set out below:—

Oakwood

Mr. E. D. Chambers, F.C.A., aged 46, is Chairman and Managing Director of Oakwood having been a Director since 1972. He first became a Director of the two operating subsidiaries 12 years ago to represent the interests of the Lombard Banking Group and shortly before the acquisition by Oakwood in 1972 of Lombard Holdings Limited became Chairman of Clough Smith. Since 1978 he has been executive Chairman and Managing Director of Clough Smith and Chairman of Frank Love with overall responsibility for the group. He has a service contract with Oakwood for a minimum period of five years from 1st April, 1980 which is referred to in paragraph 6 below.

Mr. G. F. Mann, F.C.A., aged 48, joined Frank Love in 1959. He became a Director of that Company in 1962 and has been Joint Managing Director since 1968 with responsibility principally for finance and administration matters. He was appointed a Director of Oakwood in 1980. He has a service contract with Oakwood for a minimum period of four years from 1st April, 1980 which is referred to in paragraph 6 below.

Mr. G. A. Coleshill, aged 51, joined Clough Smith 25 years ago. He became a Director in 1972 and Deputy Managing Director in 1976. His main responsibility is for all U.K. cabling and distribution contracts. He was appointed a Director of Oakwood in 1980. He has a service contract with Oakwood for a minimum period of four years from 1st April, 1980 which is referred to in paragraph 6 below.

Clough Smith

In addition to Mr. Chambers and Mr. Coleshill the following are Directors of Clough Smith:—

Mr. G. F. Henley, aged 65, who joined the Company 25 years ago and introduced transmission line work as an extension to its activities. He was appointed Technical Director in 1976 and his responsibilities include design work and customer liaison on technical matters. In 1979 he was appointed Chairman of the Overhead Transmission Line Contractors Association.

Mr. J. J. Forrestal, aged 46, who joined the Company in 1976 as Overseas Director, having had many years experience in the electrical contracting industry both in the U.K. and overseas. His main responsibility is for the administration and extension of the Company's overseas activities.

Mr. D. J. Coker, F.C.I.S., M.B.I.M., aged 34, who joined the Company in 1976 as Company Secretary having previously served as assistant group secretary to a listed company. He was appointed a Director in 1977 and is responsible for all administrative matters. He was appointed Secretary of Oakwood in 1980.

Mr. A. P. Marshall, aged 39, who joined the Company in 1965 and was appointed a Director in 1979. He is now responsible for the U.K. Transmission Line Division and Plant and Transport Department.

Frank Love

In addition to Mr. Chambers and Mr. G. F. Mann the following are Directors of Frank Love:—

Mr. J. G. Mann, F.C.I.S., aged 55, who joined the Company some 30 years ago and worked in most departments before being appointed a Director in 1965. He has been Joint Managing Director since 1968. He has a service contract with Frank Love for a minimum period of four years from 1st April, 1980 which is referred to in paragraph 6 below.

Mr. R. C. Jones, F.C.A., aged 64, who has been a Non-Executive Director since 1972. *Prior to this he had been the group accountant of Lombard Holdings Limited from 1968.*

Senior Management

Name	*Position*	*Age*	*Years Service*
Clough Smith			
D. A. Clifford	Manager, Southern Region	45	17
M. W. Northern	Manager, Northern Region	39	15
R. E. Hessell	Contracts Manager, Transmission	38	15
E. A. Holme, F.C.C.A.	Chief Accountant	45	17
B. G. Parker	Manager, Plant & Transport	55	19
J. Prout	Manager, Wales Region	38	20
N. J. Torrington	Management Co-ordinator	37	17
Frank Love			
R. W. Byer, F.C.I.S., M.B.I.M.	Company Secretary	42	5
L. H. Chamberlain	Office Sales Manager	60	44
F. J. Cramer	Sales & Marketing Manager	46	14
B. E. Elliott	London Warehouse Manager	33	8
R. A. Newell	Bristol Warehouse Manager	47	4
R. C. Noble	Purchasing Manager	64	48

The total number of full-time employees of the Group is approximately 330. There is a Group pension scheme.

PREMISES

The Group's principal premises are detailed below:—

Address	*Description and usage*	*Tenure*	*Book value 30th September, 1979 £000*	*Subsequent revaluation £000*	
Clough Smith					
Clough Smith House, Stephenson Way, Crawley, West Sussex RH10 1NN.	Office headquarters and storage facilities comprising single storey offices (6,015 sq. ft.) and stores (2,720 sq. ft.) with parking area.	Leasehold — 99 years from 24th June, 1955 at a ground rent of £240 p.a. not subject to review.	389	—	Book value represents valuation at 31st December, 1979 by Philip James Associates, Surveyors and Valuers.
Boundary Estate, Stafford Road, Fordhouses, Wolverhampton WV10 7ES.	Office, stores and service facilities for Northern region comprising single storey offices (approx. 3,000 sq. ft.) and stores (approx. 1,300 sq. ft.), with parking area.	Freehold	58	—	Book value represents valuation at 1st December, 1979 by G. L. Hearn & Partners, Surveyors and Valuers.
Frank Love					
New XL House, 45/47 Westminster Bridge Road, Southwark London SE1 7JA.	Office headquarters, warehouse and distribution depot comprising 4 storey office and warehouse premises, with a single storey warehouse at rear (totalling approx. 18,800 sq. ft.) with yard.	Freehold	400	450	Book value represents valuation at 21st March, 1977 by G. L. Hearn & Partners. Subsequent revaluation represents a valuation by that firm at 2nd April, 1980.
Unit 2, Avonside Industrial Estate, Feeder Road, Bristol BS2 0UB.	Warehouse and distribution depot (approx. 14,600 sq. ft.) and office (approx. 800 sq. ft.) with parking area.	Leasehold — 25 years from 28th December, 1977 at a rent of £18,135 p.a. subject to review in 1982 and in every fifth year thereafter.	—		

The valuation for New XL House at 45/47 Westminster Bridge Road, London SE1 7JA carried out at 21st March, 1977 was on the basis of the Group disposing of its freehold interest conditionally upon it taking a least of the completed building, following redevelopment, upon normal full repairing lease terms at market rental. The valuation carried out on 2nd April, 1980 was on the basis of a sale in the open market with vacat possession and with the benefit of existing planning permission for office purposes. A valuation of the premises by G. L. Hearn & Partners as at 2nd April, 1980 on the basis of open market value for existing use purpose amounted to £170,000.

All other professional valuations represent open market value on an existing use basis. An additional property comprising a residential house was held by Oakwood at 30th September, 1979 at a book value of £96,000, representing open market valuation of £95,000 at 16th November, 1978 by Philip James Associates, plus subsequent cost. On 21st March 1980 Ibbett, Mosely, Card & Co., Chartered Surveyors, expressed their opinion that the market value of the property was £160,000 and contracts have been exchanged for the purchase of the property by Mr. Chambers and his wife at this valuation. Details are set out in Contract No. (iii) below.

Clough Smith has planning consent in respect of its premises at Crawley for the erection of an office block of 6,400 sq. ft. Frank Love has outline planning consent for the re-development of the site of New XL House as a 22,000 sq. ft. office block. The Directors consider that there are potential benefits to the Group to be derived from the development of these properties and will exploit the planning consents when appropriate. None of the foregoing valuations reflect the cost of any land tax or capital gains tax which might arise on redevelopment or on disposal. No development would be undertaken without further finance being obtained.

WORKING CAPITAL

The Directors are of the opinion that, taking into account available bank facilities, Oakwood and its subsidiaries have sufficient working capital for their present requirements.

NET TANGIBLE ASSETS

The Accountants' Report set out below shows that the consolidated shareholders' funds of Oakwood at 30th September, 1979, as adjusted, amount to £2,144,000. This is equivalent to 107p for each of the 2,000,000 Ordinary shares of 25p presently in issue.

PROFITS AND PROFIT FORECAST

The turnover and profits for the five financial years ended 30th September, 1979 are set out in the Accountants' Report below. Except for 1978, when contracts undertaken by Clough Smith in the Orkney and Shetland Islands were adversely affected by weather conditions and operational difficulties, profits before taxation have increased each year over the period.

In the absence of unforeseen circumstances, the Directors forecast profits of the Group before taxation, extraordinary items and minority interests, for the year ending 30th September, 1980 amounting to not less than £700,000 of which it is expected that Clough Smith will provide approximately 65% and Frank Love the balance. This forecast is based on the unaudited management accounts for the six months ended 31st March, 1980 and, for the remaining six months, on the following assumptions:—

(a) sales by Frank Love in the six months to 30th September, 1980 will result in an increase in turnover for the year of 15% compared with the previous year;
(b) work done by Clough Smith on existing contracts in the six months period will proceed in accordance with agreed current contractual programmes;
(c) gross margins achieved will be in line with recent experience;
(d) trading will not be adversely affected by disruption in supplies of goods for resale, or of goods and services utilised in contracting activies;
(e) interest and exchange rates will not materially change.

DIVIDENDS AND DIVIDEND COVER

On the basis of the Director's forecast of profits for the year ending 30th September, 1980 it is intended to recommend for payment in or about February, 1981 a dividend of 4.5p net per share (which together with the related tax credit of 30% is equivalent to a 6.43p per share). This will be the first dividend payable by Oakwood after its admission to the Official List.

Waivers have been received from holders of approximately 70% of the issued share capital in respect of three-quarters of the first proposed dividend payable on their shares.

In respect of a full year in which a similar level of profit was earned the Directors would expect to recommend dividends totalling 6.5p net per share (9.29p with related tax credit of 30%). It is intended in future years to pay an interim dividend in or about August and a final dividend in or about February.

The following table sets out, by way of illustration only, how a profit before taxation of £700,000 would be appropriated assuming Corporation Tax at the rate of 52% and no dividend waivers.

	£
Profit before taxation	700,000
Less: Taxation	364,000
Profit after taxation	336,000
Less: Minority interests	27,000
	309,000
Less: Dividend of 6.5p per share	130,000
	179,000
Dividend cover	2.4 times

On the above basis the gross dividend yield on the Ordinary shares at the placing price of 83p per share would be 11.2% and the price/earnings multiple would be 5.3.

PROSPECTS

Clough Smith

The Company seeks to promote its business in the present areas of activity, particularly in relation to military establishments and railways where it foresees a material increase in turnover. In addition, a broadening of its customer base for electrical cabling works within the private sector is being actively pursued particularly in the oil industry. A selective approach is adopted to overseas work where the Third World presents a substantial potential market for the Company's services and expertise.

Frank Love

The Company's range of products is supplied for use in new building work, central heating installations, maintenance and the expanding home improvement and do-it-yourself markets. It is the object of the Company to continue to improve its service and broaden the range of products supplied, thereby increasing its market. In addition to the proposed acquisition of the new Camberwell depot it is the intention of Frank Love to establish further depots. This would give the Company national coverage and the ability to reach more customers by virtue of the speedy delivery service on which its continuing success depends.

Oakwood

With its strong asset base, the group is well placed to expand its present activities and to make future acquisitions as suitable opportunities arise.

ACCOUNTANTS' REPORT

The following is a copy of a report to the Directors of Oakwood and Capel-Cure Myers Limited received from Spicer and Pegler, auditors and reporting accountants:—

The Directors,
Oakwood Group Limited,
The Directors,
Capel-Cure Myers Limited.

St. Mary Axe House,
56-60 St. Mary Axe,
London EC3A 8BJ.

16th May, 1980

Gentlemen,

We have examined the audited accounts of Oakwood Group Limited ("Oakwood") and its subsidiaries (collectively "the Group") for the five years ended 30th September, 1979.

Oakwood has the following trading subsidiary companies:—

Clough Smith Limited "Clough Smith"
Frank Love Limited "Frank Love"

Clough Smith is engaged in civil and electrical engineering and Frank Love in the wholesale distribution of water fittings and sanitaryware.

As at the commencement of the period covered by this report, the ordinary share capital of Clough Smith was 79.8% owned by Oakwood. This interest was increased to 88.1% in 1977 by the acquisition of further shares for cash and to 88.8% on 16th May, 1980 by the acquisition of 1,000 further shares in exchange for shares in Oakwood. On the same date Frank Love became a wholly-owned subsidiary by means of a share exchange. For the purposes of this report, the financial statements set out below show, for the relevant periods and dates, the results and financial position of the business carried on by the Group on the basis that Frank Love was wholly-owned throughout.

Chantrey, Button & Co., Chartered Accountants, were auditors of Frank Love for all relevant periods. Hays Allan, Chartered Accountants, and Hartley, Fowler & Co., Chartered Accountants, were auditors of all other group companies for, respectively, the two years ended 30th September, 1976 and the three years ended 30th September, 1979. Spicer and Pegler were appointed auditors of Oakwood and joint auditors of the subsidiaries in April 1980.

The summarised consolidated profit and loss accounts and balance sheets set out below are based on the audited accounts after making such adjustments as we consider appropriate, and have been prepared under the historical cost convention modified by the inclusion of freehold and long leasehold properties at valuation. In our opinion these summaries together with the notes thereon give, under the convention stated above and for the purposes of the listing particulars dated 16th May, 1980, a true and fair view of the profits of the Group for the five years ended 30th September, 1979 and the state of affairs of Oakwood and of the Group as at the dates stated.

During March, 1980, Statement of Standard Accounting Practice Number 16 was issued by the Institute of Chartered Accountants in England and Wales to provide for the inclusion of current cost information in annual financial statements relating to accounting periods commencing on or after 1st January, 1980. The Directors of Oakwood have considered this standard. However they have not concluded upon the most appropriate method of its implementation for the five year period covered by this report, particularly in connection with the possible adjustments which may arise in respect of certain categories of the Group's business, namely contracts spanning two or more accounting periods undertaken in a variety of overseas territories. These contracts are, in any event, covered by inflation clauses. Accordingly, no supplementary current cost figures for the period under review have been calculated for the purposes of this report.

1. Accounting Policies

The financial information in respect of earlier years has been restated where relevant and necessary in accordance with the principal accounting policies currently employed by the Group set out below.

(a) *Depreciation*

(i) Depreciation is not provided on freehold and long leasehold buildings; if such depreciation had been provided, the Directors estimate that a charge of no more than £8,000 would have been required in any one year. In these circumstances, the Directors do not consider the effect of this non-compliance with Statement of Standard Accounting Practice Number 12 to be material in the context of the profits or net assets of the Group in the period under review.

(ii) Short leaseholds are amortised over the unexpired period of the lease.

(iii) Depreciation of other fixed assets is provided to write off their cost on a straight line basis over their estimated useful lives at the following rates:

Motor vehicles and plant—between 15 per cent. and 33⅓ per cent.
Fixtures and equipment—between 10 per cent. and 20 per cent.

(b) *Stocks and work in progress*

(i) Stocks are valued at the lower of cost and estimated net realisable value.

(ii) Work in progress on uncompleted contracts at the year end is valued at the cost of materials, labour and attributable overheads. It includes a proportion of profits appropriate to the stage of completion less provision for anticipated losses, and is stated after deducting amounts invoiced on account. Whereas foreseeable losses are provided in full as soon as they are identified, profits are not anticipated until the Directors consider that the stage of completion enables the ultimate profit to be reasonably foreseen.

(c) *Deferred taxation*

Provision is made at the current rate of 52 per cent. for the liability to corporation tax which may arise in the foreseeable future on the following:—

(i) the excess of allowances for taxation purposes over depreciation charged in the accounts.

(ii) stock appreciation relief except in Frank Love where, in the opinion of the Directors, no liability will arise in the foreseeable future.

No provision is made for chargeable gains which would arise were the freehold and long leasehold properties to be sold at their revalued figures and were roll-over relief not then available.

(d) *Foreign Currency*

Assets and liabilities overseas are translated into sterling at the rates of exchange ruling at the balance sheet date.

2. Profits

A summary of the adjusted profit and loss accounts of the Group for the five years ended 30th September, 1979 is set out below:—

	Note	1975	1976	1977	1978	1979
		£000				
Turnover	(i)					
Civil and electrical engineering		3,809	4,354	3,797	3,315	4,972
Wholesale distribution of water fittings and sanitaryware		1,464	1,886	2,270	2,966	3,745
Total turnover		5,273	6,240	6,067	6,281	8,717
Profit before taxation	(ii)					
Civil and electrical engineering		(32)	136	189	24	276
Wholesale distribution of water fittings and sanitaryware		94	124	127	164	229
		62	260	316	188	505
Taxation	(iii)	(35)	(89)	(159)	45	(257)
Profit after taxation		27	171	157	233	248
Minority interests		2	(11)	(11)	(2)	(17)
Profit before extraordinary items		29	160	146	231	231
Extraordinary items	(iv)	13	(13)	(7)	(15)	3
Retained profit		42	147	139	216	234
Earnings per share	(v)	1.4p	8.0p	7.3p	11.5p	11.5p
Operating results before taxation per share	(vi)	3.2p	12.2p	14.7p	9.2p	23.7p

Notes

(i) The turnover figures stated above represent the following:—
(a) Civil and electrical engineering—invoiced sales adjusted by work in progress.
(b) Wholesale distribution of water fittings and sanitaryware—sales of goods to third parties excluding value added tax and credits.

(ii) Profit before taxation is arrived at after charging and crediting the following items:—

	1975	1976	1977	1978	1979
	£000				
Depreciation and amortisation	91	88	92	99	119
Hire of plant and machinery	127	155	77	117	217
Directors' emoluments	13	13	15	15	28
Interest paid	44	43	42	37	78
Interest received	—	—	—	(43)	(13)

(iii) Taxation

	1975	1976	1977	1978	1979
Current taxation	50	15	90	(54)	78
Transfer to/(from) deferred taxation	(15)	74	69	9	179
	35	89	159	(45)	257
No deferred taxation is provided in respect of stock appreciation relief for Frank Love. The amount by which the tax charge was in consequence reduced in each period was:	—	49	14	150	—

(iv) Extraordinary items comprise:

	1975	1976	1977	1978	1979
Profit on sale of copper wire bars	—	6	—	—	—
Surplus on sale of freehold property	—	—	—	—	8
Provision for legal costs in connection with abortive sale of freehold property	—	(6)	(7)	(15)	(5)
Surplus arising from (amounts written off) investment in subsidiary and associated companies	13	(13)	—	—	—
	13	(13)	(7)	(15)	3

(v) Earnings per share
Earnings per share are calculated on the profit after all charges including taxation and minority interests but before extraordinary items for each period based on the share capital of 2,000,000 Ordinary 25p shares in issue as at the date of this report.

(vi) Operating results before taxation per share
The incidence of stock relief had a particularly marked effect on earnings per share in 1976 and 1978. Accordingly, the underlying trend of operating results per share is also shown above, calculated by reference to the profit before taxation, but adjusted for minority interests.

3. Balance Sheets

A summary of the adjusted balance sheets of the Group at the relevant dates and of Oakwood at 30th September, 1979 is set out below:—

Oakwood 30th September 1979 £000		Note	The Group 30th September 1974	1975	1976	1977	1978	1979
			£000					
19	Fixed assets	(i)	583	558	658	874	1,137	1,408
—	Trade investments		26	47	—	—	—	—
—	Quoted investments at cost		—	—	—	—	—	80
19			609	605	658	874	1,137	1,488
	Current assets							
—	Stocks and work in progress	(ii)	708	588	817	1,051	1,284	1,285
—	Debtors		1,151	1,242	1,499	1,376	1,537	2,036
—	Bank balances		7	13	22	10	534	422
160	Receivable on property sale	(iii)	—	—	—	—	—	160
160			1,866	1,843	2,438	2,437	3,355	3,903
	Current liabilities							
12	Creditors		1,081	1,116	1,355	1,063	1,744	2,017
78	Bank overdraft (secured)		348	270	485	536	696	710
16	Taxation		50	102	38	55	(2)	63
106			1,479	1,490	1,878	1,654	2,440	2,790
54	Net current assets		387	353	558	783	895	1,113
73			996	958	1,217	1,657	2,032	2,579
192	Interest in subsidiaries	(iv)	—	—	—	—	—	—
—	Deferred taxation	(v)	(49)	(30)	(101)	(158)	(192)	(333)
—	Minority interests		(77)	(86)	(73)	(70)	(76)	(102)
265	Net tangible assets		870	882	1,043	1,528	1,764	2,144
	Financed by:							
100	Share capital	(vi)	100	100	100	100	100	100
165	Reserves	(vii)	770	782	943	1,428	1,664	2,044
265			870	882	1,043	1,528	1,764	2,144

Notes:

(i) Fixed Assets

	1974	1975	1976	1977	1978	1979
	£000					
Land and buildings, at valuation						
Freehold	157	161	238	531	554	456
Long leasehold	225	226	247	250	324	389
Short leasehold	17	13	16	17	3	—
Equipment, plant and vehicles, at cost	414	428	484	529	613	918
	813	827	983	1,327	1,494	1,763
Depreciation and amortisation	(230)	(269)	(325)	(453)	(357)	(355)
	583	558	658	874	1,137	1,408

The following professional valuations for the Group's land and buildings have been incorporated in its accounts at 30th September, 1979:—

		Date of valuation	£000
Freehold	(a)	21st March, 1977	400
	(b)	1st December, 1978	56
Leasehold	(c)	31st December, 1978	389

The property in (a) was valued by G. L. Hearn & Partners on the basis of the Group disposing of its freehold interest conditional upon it taking a lease of the completed building, following redevelopment, upon normal full repairing lease terms at market rental. They carried out a further valuation amounting to £450,000 on 2nd April, 1980 on the basis of a sale in the open market with vacant possession and with the benefit of existing planning permission for office purposes. A further valuation by G. L. Hearn & Partners as at 2nd April, 1980 on the basis of open market value of the premises for existing use purposes amounted to £170,000. The valuations at (b) and (c) were carried out by G. L. Hearn & Partners and Philip James Associates respectively and both represent open market value on an existing use basis. None of the foregoing valuations reflect the cost of any development land tax or capital gains tax which might arise either on redevelopment or on disposal.

(ii) Stocks and work in progress

	1974	1975	1976	1977	1978	1979
	£000					
Stocks	449	423	535	576	903	887
Work in progress	259	165	282	475	381	398
	708	588	817	1,051	1,284	1,285

Work in progress relates to Clough Smith and comprises the value of work done but not invoiced on both short-term and long-term contracts. The latter category amounted to £162,000 as at 30th September, 1979 and represents individual contracts which extend for more than one calendar year. In arriving at the value of work in progress, amounts invoiced on account of £3,594,000 have been deducted from the total value of work on uncompleted contracts. It has not been the Company's practice to account separately for accumulated costs and amounts invoiced on account in earlier years, and thus it has not been practicable to produce comparable figures for those years.

(iii) Receivable on property sale
This represents the amount as at 30th September, 1979 arising from the sale of a property at current market value of £160,000 to Mr. and Mrs. E. D. Chambers agreed subsequent to the balance sheet date. Contracts have been exchanged to this effect and the total purchase price will be paid on completion prior to 18th June, 1980.

(iv) Interest in subsidiaries
The interest of Oakwood in its subsidiaries at 30th September, 1979 consisted of:—

	£000
Shares at cost and valuation	416
Amounts due to subsidiaries (net)	(224)
	192

Subsidiaries include the following non-trading companies:—	% Held
Clough Smith Stressing Services Limited	89
Oakwood Commercial Limited	100
Oakwood Securities (Pension Trustees) Limited	100
Midland Electrical Construction (Wolverhampton) Limited (see (a) below)	89
Southern Computer Limited	100
Well Bros., Clough Smith Limited	89

Notes:
(a) A Receiver was appointed to this company on 16th July, 1974 and it ceased trading on that date. Full provision has been made for all losses attributable to the Group.
(b) The book value of shares in subsidiaries does not include the amount attributable to the shares in Oakwood issued on 16th May, 1980 to acquire the minority interest in Frank Love (see also (vi) below).

(v) Deferred taxation

	1974	1975	1976	1977	1978	1979
	£000					
Accelerated capital allowance	34	30	39	40	90	248
Stock appreciation relief	15	—	62	118	102	115
A.C.T. recoverable	—	—	—	—	—	(5)
Unutilised tax losses	—	—	—	—	—	(25)
	49	30	101	158	192	333

The potential amount of additional deferred taxation not provided for at 30th September, 1979 was as follows:—

	£000
Stock appreciation relief	186
Chargeable gains arising on the revaluation of freehold properties	153
	339

(vi) Share capital
The authorised, issued and fully paid share capital of Oakwood throughout the period covered by this report comprised 100,000 Ordinary shares of £1 each. On 16th May, 1980 the authorised share capital was increased to £650,000 and, following the issue of 22,140 and 369 Ordinary shares of £1 each in exchange for the acquisition of certain minority holdings in Frank Love and Clough Smith respectively, and in sub-division and capitalisation issue on that date, the issued share capital was increased to £500,000 divided into 2,000,000 Ordinary shares of 25p each.

(vii) Group reserves

	1975	1976	1977	1978	1979
	£000				
Total at beginning of period as adjusted	770	782	943	1,428	1,664
Movements in period					
(a) Retained profits shown in section 2 above	42	147	139	216	234
(b) Items included in the adjusted profits but not ultimately affecting present net assets	(46)	14	20	(69)	38
(c) Property revaluation/realisation surpluses	—	—	305	83	108
(d) Results of subsidiary excluded from adjusted profits	9	10	6	(10)	—
(e) Long-leasehold depreciation written back	—	—	—	16	—
(f) Consolidation adjustments	(13)	10	15	—	—
Total at end of period as adjusted	782	943	1,428	1,664	2,044
Amount included above in respect of the interest of minorities in Frank Love acquired by Oakwood on 16th May, 1980, but treated for the purpose of this report as attributable to the Group throughout	214	247	368	428	489

Of the Group reserves shown above of £2,044,000 at 30th September, 1979, an amount of approximately £950,000 was not ordinarily distributable.

(viii) Contingent liabilities
Oakwood has guaranteed the bank overdraft of Clough Smith up to £200,000.

(ix) Capital commitments
The amount of capital expenditure at 30th September, 1979 and not provided in the accounts amounted to £164,601 of which Oakwood was committed to the extent of £161,101.

4. Dividends

No dividends have been paid or proposed by Oakwood during the period under review.

5. Accounts

No audited accounts of Oakwood or its subsidiaries have been made up for any period subsequent to 30th September, 1979.

Yours faithfully,
SPICER AND PEGLER
Chartered Accountants.

LETTERS RELATING TO THE PROFIT FORECAST

The following are copies of letters addressed to the Directors of Oakwood relating to the profit forecast:—

(i) From the reporting accountants:—

St. Mary Axe House,
56-60 St. Mary Axe,
London EC3A 8BJ

The Directors,
Oakwood Group Limited.

16th May, 1980

Gentlemen,

We have reviewed the accounting policies and calculations for the profit forecast of Oakwood Group Limited and its subsidiaries ("The Group") for the year ending 30th September, 1980, for which the Directors are solely responsible. The forecast, as referred to in the particulars dated 16th May, 1980, issued in connection with the listing of the Ordinary share capital of Oakwood Group Limited, includes the results shown by the unaudited management accounts for the six months ended 31st March, 1980.

In our opinion the forecast, so far as the accounting policies and calculations are concerned, has been properly compiled using the assumptions made by the Board set out in the said particulars and is presented on a basis consistent with the accounting policies normally adopted by the Group.

Yours faithfully,
SPICER AND PEGLER
Chartered Accountants.

(ii) From Capel-Cure Myers Limited:—

Bath House,
Holborn Viaduct,
London EC1A 2EU

The Directors,
Oakwood Group Limited.

16th May, 1980

Gentlemen,

We refer to the profit forecast for the year ending 30th September, 1980 set out in the paragraph headed Profits and Profit Forecast, included in the document dated 16th May, 1980, issued in connection with the listing of 2,000,000 Ordinary shares of 25p each of Oakwood Group Limited.

We have discussed with you the policies and assumptions on which the profit forecast was made. We have also considered the letter dated 16th May, 1980 addressed to you from Spicer and Pegler regarding the accounting policies and calculations adopted in arriving at the profit forecast.

On the basis of the above, we consider that the profit forecast, for which you are solely responsible, has been made after due care and consideration.

Yours faithfully,
For CAPEL-CURE MYERS LIMITED,
R. A. M. LEDERMAN,
Director.

STATUTORY AND GENERAL INFORMATION

1. History and Capital Changes

Oakwood was incorporated in England on 10th June, 1964 as a private company with the name Lombard Development Company Limited, the name being changed to Lombard Development Limited on 3rd December, 1964, to Oakwood Securities Limited on 22nd December, 1971 and to the present name on 21st March, 1980. It was converted into a public company and adopted new Articles of Association on 16th May, 1980. Immediately before 16th May, 1980 the authorised share capital of Oakwood was £100,000 divided into 100,000 Ordinary shares of £1 each all of which were issued and fully paid. On that date:—

(i) the authorised share capital of Oakwood was increased to £650,000 by the creation of an additional 550,000 Ordinary shares of £1 each;
(ii) a total of 22,140 Ordinary shares of £1 each were issued credited as fully paid in consideration of the transfer to Oakwood of 36,668 Ordinary shares of £1 each in Frank Love pursuant to Contract No. (iv) referred to in paragraph 6 below;
(iii) 369 Ordinary shares of £1 each were issued credited as fully paid to Mr. G. A. Coleshill in consideration of the transfer by him to Oakwood of 1,000 Ordinary shares of £1 each in Clough Smith;
(iv) each of the 650,000 issued and unissued Ordinary shares of £1 was sub-divided into 4 Ordinary shares of 25p each;
(v) the sum of £377,491 being part of the amount standing to the credit of the reserves of Oakwood was capitalised and applied in paying up 1,509,964 Ordinary shares of 25p each which were distributed rateably amongst the holders of the existing Ordinary shares.

2. Subsidiaries

Oakwood has the following subsidiaries all of which are private companies incorporated in England:—

Name of Company	*Date of incorporation*	*Issued Share Capital*	*% owned*
Clough Smith Limited	16th June, 1910	152,838 Ordinary shares of £1 each	89
		7,980 4.2% Cumulative Preference shares of £1 each	72
Frank Love Limited	13th November, 1940	110,000 Ordinary shares of £1 each	100
Oakwood Securities (Pension Trustees) Limited	10th June, 1964	2 Ordinary shares of £1 each	100
Oakwood Commercial Limited	4th May, 1966	10,000 Ordinary shares of £1 each	100
Clough Smith Stressing Services Limited	7th June, 1963	20,000 Ordinary shares of £1 each	89
Southern Computer Limited	30th July, 1964	2 Ordinary shares of 25p each	100
Well Bros., Clough Smith Limited	22nd May, 1951	1,000 Ordinary shares of £1 each	89
Midland Electrical Construction (Wolverhampton) Limited (in receivership)	26th July, 1961	40,000 Ordinary shares of £1 each	89

3. Contract with Capel-Cure Myers Limited

Under Contract No. 6 (vi) below Capel-Cure Myers Limited has agreed, subject to the whole of the issued share capital of Oakwood being admitted to the Official List by the Council of The Stock Exchange not later than 28th May, 1980, to purchase from the Ordinary shareholders of Oakwood a total of 500,000 Ordinary shares of 25p each at a price of 83p per share less a commission of 1½p per share (plus VAT) with a view to such shares being placed with its clients and other members of the public. The contract provides, *inter alia*, that Oakwood will pay all the expenses of and incidental to the application for the issued share capital of Oakwood to be admitted to the Official List including all the cost of preparation, printing and advertising of these particulars, all accountancy and legal expenses and a fee to Capel-Cure Myers Limited.

The vendors and the numbers of shares agreed to be sold by them respectively are:—
E. D. Chambers 156,320; Mrs. P. T. B. Chambers 121,808; Mrs. P. T. B. Chambers and E. E. Heath 33,253; Mrs. P. T. B. Chambers and C. M. Bodwin 33,253; E. J. P. C. L. Knight 86,276; A. C. E. Y. L. Knight 8,976; R. C. Jones 2,651; G. F. Mann 21,156; J. G. Mann 21,156; Mrs. A. Mann 7,565, and Mrs. J. Mann 7,565.

4. Directors and other Interests

(a) Immediately after the placing the interests, as shown in the register maintained pursuant to the Companies Act 1967, of the Directors and their families in the share capital of Oakwood will be as follows:—

	Beneficial	*Non-Beneficial*
E. D. Chambers	1,091,976	260,000
G. F. Mann	152,000	—
G. A. Coleshill	6,024	—

The non-beneficial interest of Mr. Chambers represents shares held by his wife as one of the trustees of trusts for the benefit of his children. The beneficial interest of Mr. Chambers includes these shares.

(b) Immediately after the placing Mr. J. G. Mann will hold 130,000 Ordinary shares of 25p each (representing 6.5% of the issued share capital) of Oakwood.

(c) Save as disclosed above the Directors are not aware of any interest which will *immediately after the* placing represent 5% or more of the issued share capital of Oakwood.

5. Articles of Association

The Articles of Association of Oakwood contain provisions (*inter alia*) to the following effect:—

Votes of Members

(a) Subject to any special rights or restrictions as to voting attached to any shares, on a show of hands every member, who (being an individual) is present in person or (being a corporation) is present by a representative or proxy, shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every 25p in nominal amount of shares of any class held by him. No holder of Ordinary shares in the Company shall be entitled to vote at a general meeting if he or any person appearing to be interested in Ordinary shares held by him has been duly served with a notice under Section 27 of the Companies Act 1976 and is in default in supplying to the Company the information thereby requested within 42 days after service of the said notice or such longer period as may be specified in the said notice for compliance therewith.

Borrowing Powers

(b) The Directors may exercise all the Company's powers to borrow money but shall restrict the borrowings of the Company and shall exercise all voting and other rights or powers exercisable by the Company in relation to its subsidiaries so as to secure that the aggregate amount outstanding of all moneys borrowed by the Group (excluding Intra-Group indebtedness) shall not, without the previous sanction of an Ordinary resolution of the Company, exceed an amount equal to one and a half times the aggregate of the amount paid up on the share capital of the Company and the amount standing to the credit of the capital and revenue reserves of the Company and its subsidiaries (all as more precisely defined in the Articles of Association).

Directors

(c) The Chairman and other Directors of the Company shall be paid such remuneration (by way of fee) for their services as may be determined by the Board save that unless otherwise approved by the Company in general meeting the aggregate amount of such remuneration shall not exceed £10,000 per annum subject to annual increase in line with the increases in the Retail Prices Index. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with the business of the Company or in attending and returning from meetings of the Directors or general meetings. Any Director who by arrangement with the Directors, performs services outside the scope of the ordinary duties of a Director may be paid such extra remuneration as the Directors may determine.

(d) The Directors may appoint any one or more of their number to be the holder of any executive office on such terms as to remuneration and otherwise as they think fit. Such Director shall not be subject to retirement by rotation.

(e) A Director may hold any other office or place of profit under the Company (other than the office of auditor) and may act in a professional capacity to the Company on such terms as the Directors may determine. No Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise, nor shall any such contract, or any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested, be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established but the nature of his interest must be disclosed. Any Director may continue to be or become a Director or other officer or member of or otherwise interested in any other company promoted by the Company or in which the Company may be interested as a member or otherwise or which is a holding company of the Company or a subsidiary of such holding company; and no such Director shall be accountable for any remuneration or other benefits received by him as a Director or other officer or member of, or from his interest in, any such other company.

(f) Subject as mentioned below, a Director shall not vote in respect of any contract or arrangement or other proposal in which he has a material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting. However, a Director may (in the absence of some other material interest than is indicated below) vote and be counted in the quorum in respect of any resolution concerning any of the following matters:—
(i) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries or to a third party in respect of obligations of the Company or any of its subsidiaries for which he has assumed responsibility in whole or in part;
(ii) any proposal concerning an offer of securities of or by the Company or any of its subsidiaries in which he is interested as an underwriter;
(iii) any proposal concerning another company in which he is interested provided he is not the holder of or beneficially interested in 1 per cent. or more of any class of the share capital of such company;
(iv) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he might benefit and which is subject to Inland Revenue approval for taxation purposes;
(v) any proposals in relation to the appointment of two or more of the Directors to offices or employment with the Company or any other company in which the Company is interested provided that the proposal in relation to each Director is taken separately and he does not vote and is not counted in the quorum in relation to his own appointment.

(g) Section 185 of the Companies Act 1948 (relating to the appointment and retirement of Directors who have attained the age of seventy) applies to the Company.

(h) The Directors may establish and maintain pension and superannuation funds for the benefit of and give donations, gratuities, pensions allowances and other benefits to any persons who are or were at any time in the employment of the Company or any subsidiary or associated company and who may be or have been Directors or officers of the Company or any such other company and who hold or have held executive or non-executive positions therein and to the wives, widows, families and dependants of any such persons and may establish and subscribe to all kinds of schemes, trusts and funds for the benefit of any such persons.

(i) A Director shall not be required to hold any qualification shares but nevertheless shall be entitled to attend and speak at any general meeting or at any separate general meeting of the holders of any class of shares of the Company.

6. Material Contracts

The following contracts not being contracts in the ordinary course of business, have been entered into within the period of two years immediately preceding the date hereof and are or may be material:—

(i) Dated 2nd October, 1978 being a mortgage debenture in favour of National Westminster Bank Limited whereby Frank Love created fixed and floating charges over its assets and undertaking in security for all present and future indebtedness and other liabilities of Frank Love to National Westminster Bank Limited;
(ii) Dated 14th May, 1980, between Oakwood (1) and Clough Smith (2), whereby Oakwood agreed to sell freehold property known as Old Trees, Horley Lodge Lane, Salfords, Surrey to Clough Smith for a cash consideration of £160,000;
(iii) Dated 16th May, 1980, between Clough Smith (1) and Mr. and Mrs. E. D. Chambers (2), whereby Clough Smith agreed to sell the freehold property referred to in (ii) above to Mr. and Mrs. E. D. Chambers for a cash consideration of £160,000;
(iv) Dated 16th May, 1980, between G. F. Mann and others (1) and Oakwood (2), whereby Oakwood agreed to purchase a total of 36,668 Ordinary shares of £1 each in Frank Love in consideration for the issue by Oakwood of a total of 22,140 Ordinary shares of £1 each credited as fully paid;
(v) (a) Dated 16th May, 1980, between E. D. Chambers (1) and Oakwood (2), whereby Mr. Chambers agreed to serve Oakwood as Managing Director for a period of 5 years from 1st April, 1980 and thereafter subject to 6 months' notice by him or one year's notice by Oakwood at an annual salary of £15,000 subject to annual review;
(b) Dated 16th May, 1980, between G. F. Mann (1) and Oakwood (2), whereby Mr. Mann agreed to serve as an Executive of Oakwood and Joint Managing Director of Frank Love for a period of 4 years from 1st April, 1980 and thereafter subject to 6 months' notice by him or one year's notice by Oakwood at an annual salary or £14,500 subject to annual review;
(c) Dated 16th May, 1980, between G. A. Coleshill (1) and Oakwood (2), whereby Mr. Coleshill agreed to serve as an Executive Director of Oakwood and Deputy Managing Director of Clough Smith for a period of 4 years from 1st April, 1980 and thereafter subject to 6 months' notice by him or one year's notice by Oakwood at an annual salary of £14,500 subject to annual review plus a discretionary bonus;
(d) Dated 16th May, 1980, between J. G. Mann (1) and Frank Love (2), whereby Mr. Mann agreed to serve Frank Love as joint Managing Director for a period of 4 years from 1st April, 1980 and thereafter subject to 6 months' notice by him or one year's notice by Frank Love at an annual salary of £14,500 subject to annual review.
(vi) Dated 16th May, 1980, between the vendor shareholders listed above (1), the Directors of Oakwood (2), Oakwood (3), Mr. E. D. Chambers and others (4) and Capel-Cure Myers Limited (5), being the contract referred to in paragraph 3 above relating to the placing of a total of 500,000 Ordinary shares of 25p each of Oakwood.

7. Taxation

The Directors have been advised that following the completion of the placing Oakwood is likely to remain a close company within the meaning of the Income and Corporation Taxes Act 1970, as amended. Shortfall and apportionment clearances as appropriate for all periods up to 30th September, 1979 have been obtained in respect of Oakwood and its subsidiaries. The Directors have been advised that no notice will be given under subsection (3) of Section 460 of the Income and Corporation Taxes Act 1970. Under Contract No. (vi) above, Mr. E. D. Chambers has given indemnities in respect of taxation and estate duty affecting Oakwood or its subsidiaries.

8. General

(a) Save as disclosed herein:—
(i) no share of loan capital of Oakwood or any subsidiary is under option or has been agreed conditionally or unconditionally to be put under option;
(ii) no share or loan capital of Oakwood or any subsidiary has, within the two years immediately preceding the date hereof, been issued or agreed to be issued or is now proposed to be issued either for cash or otherwise;
(iii) within the said two years no commissions, discounts, brokerages or other special terms have been granted by Oakwood or any subsidiary in connection with the issue or sale of any part of their respective share or loan capitals;
(iv) no Director of Oakwood is materially interested in any contract or arrangement subsisting at the date hereof and which is significant in relation to the business of Oakwood and its subsidiaries taken as a whole;
(v) there is no contract of service existing or proposed between any Director of Oakwood and Oakwood or any of its subsidiaries.

(b) On 16th May, 1980 Mr. and Mrs. E. D. Chambers exchanged contracts for the purchase from Clough Smith and now beneficially own, the freehold property occupied by them for approximately four years as referred to in Contract No. (iii) above, this property having previously been owned by the Group. Except as disclosed herein no Director of Oakwood has had within the two years immediately preceding the date hereof or now has any interest, direct or indirect, in any assets which within the said period have been or are proposed to be acquired or disposed of by or leased to Oakwood or any subsidiary.

(c) Without the prior approval of Oakwood in general meeting no material issue of shares (other than shares first offered to shareholders prorata to existing shareholdings) will be made within one year of the date of this document and no issue will be made which would effectively alter the control of Oakwood or the nature of its business.

(d) The aggregate emoluments of the present Directors of Oakwood during the year ended 30th September, 1979 amounted to £60,768. Under the arrangements currently in force their aggregate emoluments for the year ending 30th September, 1980 are estimated to amount to £50,497.

(e) Apart from outstanding claims and proceedings in respect of which the Directors are of the opinion that adequate insurance cover is available neither Oakwood nor any of its subsidiaries has any litigation or claim of material importance pending or threatened against it.

(f) No part of the proceeds of sale of the shares now being placed will be received by Oakwood.

(g) The expenses of and incidental to the placing and the application for the share capital of Oakwood to be listed on the Stock Exchange are estimated at £80,000 exclusive of VAT and are payable by Oakwood.

9. Consents and Documents

Spicer and Pegler have given, and have not withdrawn, their written consent to the issue of this document with the inclusion herein of their report and their letter together with references thereto set out in the form and context in which the same appear.

G. L. Hearn & Partners and Philip James Associates have given, and have not withdrawn, their respective written consents to the issue of this document with the inclusion herein of reference to their respective valuations in the form and context in which the same appear.

Ibbett, Mosely, Card & Co. have given, and have not withdrawn, their written consent to the issue of this document with the inclusion herein of reference to their name and opinion in the form and context in which the same appear.

Chantrey, Button & Co., Hays Allan and Hartley, Fowler & Co. have given, and have not withdrawn, their respective written consents to the issue of this document with the inclusion therein of the references to their names in the Accountants' Report in the form and context in which the same appear.

Capel-Cure Myers Limited has given, and has not withdrawn, its written consent to the issue of this document with the inclusion herein of its letter and references to its name in the form and context in which the same appear.

Such consents, together with the statement of adjustments made by Spicer and Pegler in arriving at the figures shown in the report and giving their reasons therefor, and copies of the above-mentioned contracts, were attached to the copies of this document delivered to the Registrar of Companies for registration.

Copies of the following documents will be available for inspection at the offices of Capel-Cure Myers Limited, Bath House, Holborn Viaduct, London EC1A 2EU during normal business hours on any weekday (excluding Saturdays and Bank and Public Holidays) for a period of fourteen days from the date of this document:—

(a) the Memorandum and Articles of Association of Oakwood;
(b) the audited consolidated accounts of Oakwood and its subsidiaries for the two years ended 30th September, 1979;
(c) the contracts referred to in paragraph 6 above;
(d) the report of Spicer and Pegler and the statement of adjustments referred to above;
(e) the valuations prepared by G. L. Hearn & Partners and Philip James Associates and the letter of opinion of Ibbett, Mosely, Card & Co.;
(f) the above-mentioned letters relating to the forecast of profit; and
(g) the written consents referred to above.

16th May 1980

Japanese resume overseas lending

BY CHARLES SMITH, FAR EAST EDITOR, IN TOKYO

FOREIGN currency lending to overseas borrowers by Japanese banks has been "very quietly resumed" according to Mr. T. Sagami, Vice-Minister for International Financial Affairs at the Ministry of Finance. It is clear, however, that such lending will in future be on a scale lower than it has been in the past.

Mr. Sagami supported his statement by revealing that, in the first three months of 1980, Japanese banks committed themeslves to $1.4bn worth of overseas loans. This was far less than the $7bn worth of loans contracted in the third quarter of 1979 and less even than the $3bn worth recorded in the fourth quarter of the year.

Most of this latter figure, however, reflects loans agreed during the first three weeks of October 1979, preceding a request from the Finance Ministry that banks should suspend overseas foreign currency lending for the time being.

Mr. Sagami estimated that Japan accounted for around 13 per cent of all overseas lending by international banks during the first quarter of the year. He suggested that 10 per cent of the global total would be a reasonable ratio for Japan to aim at in future. This, however, is admitted to be a very rough rule of thumb. As to the likely amount of syndicated lending during the remainder of the year the Vice Minister declined to make any prediction.

Syndicated loans made by Japanese banks durin gthe first quarter of the year are known to have included a high proportion of special cases—that is, loans made to finance projects in which Japanese exporters were directly involved. Finance Ministry officials emphasise however, that not all lending fell into this category. Loans to the Italian National Railways and to the Korean oil import corporation were amongst a number in which there was no Japanese export involvement.

Mr. Sagami said the Finance Ministry decided to suspend overseas foreign currency lending last autumn because of concren about the methods of funding used by Japanese banks (borrowin gshort to lend long) and the risk of over exposure to individual borrowers. Both concerns continue. Hence the Government's desire to see a modest and controlled resumption of lending rather than a return to the "excesses" of 1978 and 1979.

NZ to review takeover practices

By Dai Hayward in Wellington

THE NE WZEALAND Securities Commission is to review the existing laws covering company takeover and mergers following a number of controversial and highly publicised takeover during the past year.

The review will include an examination of tactics employed by those associated with recent mergers and takeovers. Where necessary the commission will use its statutory powers to obtain details in documentation of relevant practices. The operations of the NZ Stock Exchange in relation to takeovers will be studied.

The review is to ensure that the merger and takeover laws "promote a free, open, informed and competitive market while safeguarding the interest of investors and others concerned," says Mr. Colin Patterson, the chairman of the Securities Commission.

He adds that the commission has concluded that in various respects the existing laws are deficient and need reform.

The proposal review of the takeover laws comes at a time when a fierce takeover battle is being waged by fletched Holdings, which wants to acquire Carter Holt. Carter has questioned some of the earlier share dealings, which, it says, Fletchers undertook before announcing its bid.

Dillingham pulls out of shipping joint venture

BY WILLIAM HALL, SHIPPING CORRESPONDENT

DILLINGHAM Corporation, the Hawaian conglomerate, is pulling out of dry bulk shipping and selling its 50 per cent stake in Pacific Norse Shipping, to its Norwegian partner, Jebsens, for $25m.

Pacific Norse operates a fleet of 16 bulk carriers in the 20,000 dwt-35,000 dwt range with a total capacity of just under 500,000 dwt. The ships are shallow draft self loading vessels which specialise in carrying sensitive commodities such as titanium ores, mineral sands and alumina between the U.S., Australia and Europe.

Dillingham and Jebsens established the joint venture in 1973 at the height of the last shipping boom. Jebsens contributed some of its own ships and Pacific Norse ordered several new ships from Japanese shipyards.

Shortly after the launch of thte joint venture the world shipping market began experiencing its worst recession since the 1930s and Pacific Norse ran into serious financial difficulties. It lost $18.4m in 1977 and $30.9m in 1978 and agreed a major debt rescheduling programme with its creditors.

Pacific Norse's difficulties have been a serious drag on Dillingham's own earnings, which amounted to $28.4m on revenues of $1.1bn in 1979. Last year, Pacific Norse just about broke even and given the upturn in the dry cargo markets in recent months it has probably been making profits recently.

Jebsens (UK), a wholly owned subsidiary of Kristian Jebsens Rederi, is paying $25m for Dillingham's half share in Pacific Norse which represents the book value of its stake at March 29, 1980. Certain requirements are still to be satisfied and the closing date is expected next month.

Sime may buy palm oil refiner

BY OUR KUALA LUMPUR CORRESPONDENT

SIME DARBY, the Malaysian conglomerate, has entered negotiations with a view of taking over Glychem Singapore, a palm oil refining company currently under receivership.

Glychem operates the only plant in Southeast Asia producing glycerine from palm oil. Sime is reported to have offered S$10m (U.S.$4.8m) for the plant and equipment. Sime is already one of the biggest palm oil refiners in Asia, and the glycerine plant will broaden its agro-industrial base.

Malaysian Plantations lifts profit

By Wong Sulong in Kuala Lumpur

MALAYSIAN PLANTATIONS Berhad, formerly the rubber division of the UK-based Plantaiton Holdings, but now a Malaysian quoted company, has reported a 15.5 per cent rise in earnings to 13.9m ringgit ($6.3m) for the year ended December. Turnover rose by 18 per cent to 42m ringgit ($19.2m).

The profit was just short of the 14m ringgit forecast when the company went public last June. The dividend is the promised 18 per cent. Because of a low tax, net profit was 7.8m ringgit, 23 higher than for 1978.

Malaysian Plantations Berhad, which has 21,000 acres of rubber and oil palm, is 64 per cent owned by Multi-Purpose Holdings and Multi-Purpose Cooperative Society, which are controlled by leaders of the Malaysian Chinese Association, a component of the Malaysian coalition government.

The company owns Brookland Estate, which contains large deposits of tin. It has an agreement to sell Brookland Estate to the Selangor state government in stages, as and when the land is required for mining.

● Goodyear Malaysia has achieved another record year with after-tax profit for 1979 rising by 25 per cent to 8.75 ringgit. The growth was "very satisfying" considering increases in costs.

PENDING DIVIDENDS

CURRENCIES, MONEY and GOLD

Future for dollar remains uncertain

The recent fall in the value of the U.S. dollar has been attributed mainly to a fall in U.S. interest rates. Since the middle of April, when U.S. prime rates started to fall from a peak of 20 per cent, the dollar has fallen by nearly 6 per cent against the D-mark, almost 10 per cent against the yen, and 4½ per cent against sterling. In that time prime rates have fallen from 20 per cent to 16½ per cent and seem likely to fall further. With the U.S. authorities lifting the 3 per cent surcharge on the discount rate or "window" and Federal funds trading as low as 11 per cent, banks prime rates were and still are somewhat out of line.

But the fall in prime rates to narrow these differentials has been an extremely hurried affair, and the dollar has suffered accordingly, especially when looking at Euro D-mark rates, which are less than 1 per cent lower in places than the corresponding Euro-dollar rate.

The question now is whether the dollar will continue to fall or be allowed to fall should interest rates continue to decline.

It seems likely that the Federal Reserve Bank will step in again and this should deter any sustained run on the dollar. There may also be some comfort gained from recent economic indicators showing a continued slow down in the American economy. Even a predicted rise in U.S. money supply should not give much cause for concern, according to Mr. Paul Volcker, chairman of the Federal Reserve Board, since any increase should be in line with projected growth targets for this year.

However inflation is currently running at an annual rate of 14.7 per cent. President Carter also has the problem of Congressional opposition to his proposed tariff on oil imports, the fate of which is likely to give a clearer indication as to how far the U.S. is prepared to go to curb energy imports and thus help reduce inflation. Future dollar trends may well depend on which path the economy takes and interest rate levels, but there is also the outcome of current Middle East tensions, the start of which caused so much nervousness and uncertainty earlier this year.

GOLD

OTHER CURRENCIES

THE DOLLAR SPOT AND FORWARD

THE POUND SPOT AND FORWARD

EURO-CURRENCY INTEREST RATES

LONDON MONEY RATES

CURRENCY RATES

BASE LENDING RATES

A.B.N. Bank	17 %	■ Hambros Bank	17 %
Allied Irish Bank	17 %	■ Hill Samuel	§17 %
American Express Bk.	17 %	C. Hoare & Co.	†17 %
Amro Bank	17 %	Hongkong & Shanghai	17 %
Henry Ansbacher	17 %	Industrial Bk. of Scot.	17½%
A P Bank Ltd.	17 %	Keyser Ullmann	17 %
■ Arbuthnot Latham	17 %	Knowsley & Co. Ltd.	19 %
Associates Cap. Corp.	17 %	Langris Trust Ltd.	17 %
Banco de Bilbao	17 %	Lloyds Bank	17 %
Bank of Credit & Cmce.	17 %	Edward Manson & Co.	18 %
Bank of Cyprus	17 %	Midland Bank	17 %
Bank of N.S.W.	17 %	■ Samuel Montagu	17 %
Banque Belge Ltd.	17 %	■ Morgan Grenfell	17 %
Banque du Rhone et de la Tamise S.A.	17½%	National Westminster	17 %
Barclays Bank	17 %	Norwich General Trust	17 %
Bremar Holdings Ltd.	18 %	P. S. Refson & Co.	17 %
Brit. Bank of Mid. East	17 %	Rossminster	17 %
■ Brown Shipley	17 %	Ryl. Bk. Canada (Ldn.)	17 %
Canada Perm't Trust	18 %	Schlesinger Limited	17 %
Cayzer Ltd.	17 %	E. S. Schwab	17 %
Cedar Holdings	17 %	Security Trust Co. Ltd.	18 %
■ Charterhouse Japhet	17 %	Standard Chartered	17 %
Choulartons	17 %	Trade Dev. Bank	17 %
C. E. Coates	17 %	Trustee Savings Bank	17 %
Consolidated Credits	17 %	Twentieth Century Bk.	17 %
Co-operative Bank	*17 %	United Bank of Kuwait	17 %
Corinthian Secs	17 %	Whiteaway Laidlaw	17½%
The Cyprus Popular Bk.	17 %	Williams & Glyn's	17 %
Duncan Lawrie	17 %	Wintrust Secs. Ltd.	17 %
Eagil Trust	17 %	Yorkshire Bank	17 %
E. T. Trust Limited	17 %		
First Nat. Fin. Corp.	19½%		
First Nat. Secs. Ltd.	19 %		
Robert Fraser	17 %		
■ Antony Gibbs	17 %		
Greyhound Guaranty	17 %		
Grindlays Bank	‡17 %		
■ Guinness Mahon	17 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 15%, 1-month deposits 15¾%.
† 7-day deposits on sums of £10,000 and under 15%, up to £25,000 15¼% and over £25,000 15¾%.
‡ Call deposits over £1,000 15%.
§ Demand deposits 15%.

RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

UNIT TRUST SERVICE

OFFSHORE & OVERSEAS—contd.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

NOTES

INSURANCE PROPERTY BONDS

OFFSHORE & OVERSEAS FUNDS

Continued on previous page

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
15D	15Jun	Treasury 3½pc '77-80	98¾xd	9.5	3.54	16.28
15D	15Jun	Funding 5¼pc '78-80‡‡	95[illegible]xd	9.5	5.30	16.22
25May	25N	Exchequer 13pc 1980‡‡	99[illegible]xd	18.4	13.11	14.74
15Jul	15Ja	Treasury 11½pc 1981‡‡	95⅛	10.12	11.71	14.37
15Aug	15F	Treasury 3½pc 1979-81	92½	9.1	3.73	14.36
1O	1Ap	Treasury 9¾pc 1981‡‡	96[illegible]	25.2	10.12	14.32
12D	12Jun	Exch. 8¼pc 1981	94[illegible]xd	6.5	8.72	13.97
4F	4Aug	Exch. 9¾pc 1981	94[illegible]	31.12	10.31	14.23
21F	21Aug	Exch. 3pc 1981	91¾	15.1	3.27	10.12
17May	17N	Treas. Variable '81‡‡	98¾xd	10.4	16.92	17.94
23May	23N	Exch. 12¾pc 1981‡‡	96[illegible]xd	15.4	12.99	14.14
15Jul	15Ja	Treas. 8¼pc '80-82‡‡	91[illegible]	10.12	9.24	14.05
15Aug	15F	Treasury 3pc '82‡‡	88¾	9.1	3.38	10.17
16S	16Mar	Treasury 14pc '82‡‡	100[illegible]	8.2	13.99	13.89
15D	15Jun	Treas. Variable '82‡‡	96½xd	9.5	17.04	18.76
5Ja	5Jul	Treasury 8¼pc '82	90¼	3.12	9.14	13.65
22Mar	22S	Exch. 9¼pc 1982	90½	14.2	10.22	14.09
5Jul	5Ja	Exch. 8¼pc 1983	89[illegible]	3.12	9.22	13.77
21Aug	21F	Exch. 3pc '83	87¾	15.1	3.67	10.60
17S	17Mar	Treasury 12pc 1983‡‡	96[illegible]	11.2	12.48	14.34
24N	24Mar	Treas. Variable '83‡‡	94[illegible]xd	17.4	17.11	19.22
18Ja	18Jul	Treasury 5½pc '83	83¼	12.12	10.43	13.94
22May	22N	Exch. 13¼pc '83	97¾xd	15.4	13.82	14.37
12Jan	12D	Exch. 10pc 1983	87[illegible]xd	6.5	11.21	13.97
15Jul	15Ja	Funding 5½pc '82-84‡‡	[illegible]	10.12	6.80	12.10
20Aug	20F	Exch. 11¼pc 1984	91¾	14.1	12.25	14.21

Five to Fifteen Years

Over Fifteen Years

Undated

INTERNATIONAL BANK

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

LOANS

Public Board and Ind.

		Stock	Price	Last xd	Int.	Red.
1Ja	1Jl	Agric. Mt. 5pc '59-89	59½	3.12	8.51	12.79
30J	31D	Alcan 10½pc '89-94	79½	19.11	13.23	14.65
1M	1S	Met. Wtr. 3pc 'B'	27¼	1.3	11.36	13.37
30J	31D	U.S.M.C. 9pc 1982	96	5.11	9.79	—
30J	31D	Do. without Warrants	90½	5.11	10.44	15.40

LOANS—Continued

Financial

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS AND HIRE PURCHASE

		Stock	Price	Last xd	Div. Net	Cvr	Y'ld Gr's	P/E
Feb.	Aug.	Algemene Fl.100	£65	28.4	Q25%	1.9	7.7	7.9
Oct.	Apr.	Allen Harvey £1	350	10.3	21.5	—	8.8	—
Dec.	June	Allied Irish	102	5.11	h08.09	—	7.7	—
	—	Ansbacher (H.) 5p.	15¼	87[illegible]	—	—	—	—
Dec.	June	Arbuthnot L. £1	230	19.11	†10.42	—	6.5	—
July	Jan	Bk. Ireland £1	295	19.11	Q23.51	—	8.0	—
Mar.	Sept.	Do. 10pc Conv.	£345	25.2	Q10%	—	f7.0	—
May	Nov.	Bk. Leumi S0.1	6	8.10	g01.4%	—	1.9	—
Aug.	Feb.	Bk. Leumi (UK) £1	120	11.2	8.57	—	10.7	—
Jan.	July	Bk. N.S.W. $A1	141	28.12	Q16c	φ	5.9	φ
Nov.	May	Bank Scotland £1	243	28.4	15.0	5.3	8.8	3.1
A. J. O.	Ja	Bankers N.Y.$10	£19½	24.3	Q$3.30	—	7.6	—

BANKS & HP—Continued

Hire Purchase, etc.

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[illegible]

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[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

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[illegible]

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[illegible]

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Australian

[illegible]

Tins

[illegible]

Copper

[illegible]

Miscellaneous

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- †† Unlisted security.
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividends or forecasts.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at [illegible]

[illegible]

§§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Yield allows for currency clause. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1979-80. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1980-81. K Figures based on prospectus or other official estimates for 1979-80. M Dividend and yield based on prospectus or other official estimates for 1980. N Dividend and yield based on prospectus or other official estimates for 1979. P Figures based on prospectus or other official estimates for 1978-79. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

			IRISH		
Albany Inv. 20p	29	......			
Bertam	20	+1	Conv. 9% '80/82	£87⅝	......
Bdg'wtr. Est. 50p	420	−5	Nat. 9¾% 84/89	£79½	+⅛
Clover Croft	60	......	Fin. 13% 97/02	£83½	......
Craig & Rose £1	£10½	......	Alliance Gas	43	......
Fife Forge	34	......	Arnott	370xd	−1
Finlay Pkg. 5p	18	......	Carroll (P.J.)	52	......
Graig Ship. £1	£16	......	Clondalkin	115	+6
Higsons Brew	80xd	......	Concrete Prods.	75	......
Holt (Jos) 25p	252	......	Heiton (Hldgs.)	35	......
I.O.M. Stm. £1	188	......	Ins. Corp.	245	......
Pearce (C. H.)	455xd	......	Irish Ropes	60	......
Peel Mills	40	......	Jacob	30	−2
Sheff. Refrshmt	103	......	T.M.G.	100	−5
Sindall (Wm.)	155	......	Unidare	100	......

OPTIONS

3-month Call Rates

[illegible]

"Recent Issues" and "Rights" Page 24

FINANCIAL TIMES
Monday May 19 1980

Haughey to press Thatcher on Ulster

THE MEETING on Wednesday between Mrs. Margaret Thatcher, the Prime Minister, and Mr. Charles Haughey, the Irish Premier, could mark a critical turning point in Anglo-Irish relations.

It is Mr. Haughey's first meeting with Mrs. Thatcher since he became Prime Minister last December and comes as Mr. Humphrey Atkins, the Northern Ireland Secretary, is completing proposals for political devolution in Ulster.

Mr. Atkins is expected to propose a return to a thinly disguised form of majority rule legislative with an executive which will not share power with the minority Catholic community.

Although Mr. Haughey's position remains that Ireland should be reunited by peaceful means, he has not condemned Mr. Atkins' drive for devolution.

He believes, however, that it does not go far enough and that the only way to bring both parts of Ireland closer is to have government-to-government dealings.

Much will depend on whether Mrs. Thatcher accedes to Mr. Haughey's request that his Government be fully consulted over the future of Northern Ireland.

It will also depend on what concessions he is prepared to offer for closer consultations.

Mr. Haughey has repeatedly tried to reassure the Protestants of Northern Ireland that they would not become a persecuted minority in a federal Ireland.

It is believed that should Mrs. Thatcher agree to involve him in the process of bringing peace to the Province, he might be willing to change the Irish constitution to safeguard the religious rights of Protestants, - amend the divorce law which at present forbids divorce and give Northern Ireland Protestants full voting rights in any new federal arrangement.

Such concessions are unlikely to move extreme Unionist leaders such as the Rev. Ian Paisley, whose electoral support among Protestants makes him the final political arbiter of Northern Ireland's fate.

Whether the Irish Government will be consulted on future Nortehrn Ireland policy will depend on whether Mr. Haughey can convince Mrs. Thatcher that the acknowledgement of an Irish dimension is the only way that the Northern Ireland problem can ever be solved.

Mrs. Thatcher's stated position is that Northern Ireland is a matter for the British Government and the people of Northern Ireland alone to sort out.

Mr. Atkins hopes the 500,000 Catholic minority and the main Catholic moderate group, the Social Democratic and Labour Party, will be induced to take part in the new legislature by weighted majorities i nthe parliament and possible financial incentives.

Continued from Page 1

The Nine

tiated solution through the Palestine Liberation Organisation.

Mr. Muskie was quite clear last week in Europe that the U.S. did not want any rival initiatives on the scene until it was satisfied that the Camp David process could go no further.

The EEC, however, looks set to ignore this on the grounds that Camp David is heading for failure on the Palestinian question, and that the November Presidential elections in the U.S. rule out any further strong pressure from Washington for concessions from Israel.

The UK in particular believes that the looming hiatus and loss of momentum in the negotiations could bring dangerous reactions from the Middle East. Among other things, London fears that recent moves by the Israeli Government, including its legislation on Jerusalem, risk inflaming Islamic fundamentalists.

Mr. Okita met European Foreign Ministers in Naples yesterday. He said Japan would implement sanctions in line with the actions by the EEC countries. The practical form of the sanctions will be decided upon very soon, he said.

● Mr. Ali Akbar Moinfar, the Iranian Oil Minister, said yesterday Iran had not changed its policy on sanctions, which includes halting oil shipments to states imposing an economic boycott against Iran in an attempt to gain the release of the U.S. hostages.

TUC views technology plan

BY JOHN LLOYD

TUC OFFICIALS are studying the draft of a framework agreement submitted by the CBI on the introduction of new technology by companies.

If agreement can be achieved on the document it would be the only formal co-operation between the two organisations.

Although both sides have something to gain from an agreement, tehre are formidable obstacles to overcome.

Included in the CBI draft are some areas of common ground—the recognition of the importance of technological advance, particularly in the field of micro-electronics; the need for full consultation with the unions on its introduction; the importance of health and safety factors; and the likely necessity to take account of the impact on manpower, particularly where new technologies demand retraining.

Beyond these common areas, differences between the approach of the two bodies, both over emphasis and substance, multiply.

A major stumbling-block is the existence of the TUC's document, "Employment and Technology," which was presented to, and agreed by, its congress last year. The document has been used by a number of constituent unions as a basis for their own reports on new technology.

As the CBI recognises, a framework agreement, the terms of which were substantially less favourable than those set out in an agreed document, would not be ratified by the TUC's general council.

A further difference is likely to surface over the definition of "negotiation" and "collective bargaining." The CBI is concerned that an agreement should not allow lengthy bargaining over every new technique to be introduced, while the TUC is equally anxious that the introduction of new technology, and the changes of work practice it entails, be seen as a continuous process which is itself the proper subject for bargaining.

In spite of these divergences, however, both sides are likely to persevere with the negotiations.

The TUC wants to keep up the momentum on new technology, which it regards as essential to the competitiveness of British industry. It is also keen to see the CBI take up a position which might be interpreted as "interventionist"—possibly calling for more training, and more Government aid—in contrast with the Government's tendency to disengage itself from industry.

The CBI believes its members would benefit from the existence of an agreed statement which could serve as a model for the introduction of automation in factories while helping to minimise disruption.

Government decision soon on Harland and Wolff

BY WILLIAM HALL

THE GOVERNMENT is expected to announce its decision on the future of Harland and Wolff, the heavily subsidised Belfast shipyard, in the next few weeks.

A fundamental review of the company's position and prospects has been completed and now awaits the decision of Mr. Giles Shaw, the junior Minister responsible for industry in the province.

The yard has virtually run out of work, the prospect of winning new orders is bleak, and its cash resources have been exhausted.

Over the last 15 years Harland and Wolff, one of the most modern shipyards in Europe, has received more than £150m in Government aid. Last year, the Government earmarked a further £22m but this has now gone.

In 1978, the yard lost £25.5m, and the 1979 results, due out next month, are expected to show another big loss.

The Government announced last July that it was undertaking a review of the company.

One of the Government's considerations is that the company employs about 7,000 people in Belfast, an area where unemployment is severe. It is also one of the biggest employers in Northern Ireland.

Like other shipyards around the world, it has suffered from the severe shipbuilding recession. But its plight has been exacerbated by low productivity and serious delivery delays which have discouraged potential customers.

Considerable sums were spent on modernising the yard in 1973 and it is ideally suited for building very large tankers of up to 1m dwt. However, demand for these has dried up and Harland and Wolff has been forced to build much smaller ships such as ferries, for which it is not particularly well suited.

Unlike previous Administrations, the present Government appears unwilling to give an open-ended commitment to fund Harland's losses.

Mr. Hugh Rossi, the Minister of State for Northern Ireland, said recently unless the yard could satisfy customers that it could deliver the goods when the customers wanted them, it would have no customers. In line with official policy towards shipbuilding, he stressed that the solution of Harland's problems was a matter entirely for management and workers.

The Government has resisted pressure to reinstate Harland and Wolff as a naval shipbuilders (it built its last warship in 1969). In addition, it has not allowed the yard to build ships "on spec," which would be another way of keeping the labour force employed.

Consequently, the Government's plans for Harland seem likely to involve further substantial redundancies. The workforce has already fallen from a peak of 25,000 in the 1950s to 7,000. However, there is a limit to the number of redundancies since, with a workforce of less than 5,000, Harland will no longer be a viable international shipbuilder.

Japan goes to polls on June 22

A GENERAL Election to the lower house of the Japanese Diet (Parliament) and an election for half the seats in the Diet's upper house will be held on June 22.

The unprecedented simultaneous election was decided on over the weekend after the passage in the Lower House of a no-confidence vote against the Cabinet of Mr. Masayoshi Ohira.

Mr. Ohira, who has been Liberal Democratic Party (LDP) leader and Prime Minister since late 1978, will stay on as a caretaker Premier until the election. He may attend the Venice summit, whose first session coincides with the Japanese elections.

Other events scheduled for the next few weeks, such as the visit to Japan of chairman Hua Guofeng of China, will take place as planned.

The Japanese political world was still in a state of shock last night, two days after the surprise defeat of Mr. Ohira's Government. No meetings have taken place between the Prime Minister and leaders of the anti-mainstream factions within the LDP whose absence from the Diet session led to the Government's defeat.

Mr. Ohira, however, was believed to have decided against expelling rebel members from the Party for the time being. Expulsion of the 70-odd rebels, if carried out, would destroy the LDP majority in the Diet and probably lead to formation of a new party by anti-Ohira factions.

The LDP holds hair's-breadth majorities in both upper and lower houses and will be hard pressed to retain these

Loss of the party's majority is expected to lead to coalition negotiations between the LDP and one or more of the small centre parties

Leader, Page 14

Low rates keep tankers idle

BY WILLIAM HALL, SHIPPING CORRESPONDENT

THE AMOUNT of shipping laid up has started to rise again as shipowners put their Very Large Crude Carriers (VLCCs) into storage.

The General Council of British Shipping says 388 vessels totalling 11.87m dwt were laid-up around the world at the end of March, hit by depressed rates, compared with 390 ships of 10.68m dwt a month earlier.

At the height of the shipping slump in 1978, 368 tankers of 43.5m dwt and 417 cargo ships of 14.5m dwt were laid-up.

The increase in the amount of idle tonnage is most marked in the tanker trades. The GCBS figures show that the size of the idle tanker fleet in March rose by 12 per cent to 9.26m dwt. The size of the idle dry cargo fleet also rose slightly, to 2.61m dwt.

For some months, freight rates for VLCCs have not been covering most owners' operating costs and as a result shipping companies are starting to lay up their super tankers or send them to the scrapyards.

According to Davies and Newman's latest monthly tanker chartering report, Kosmos Bulkschiffahrt recently laid up its 386,778 dwt Bremen in Walvis Bay and Norway's Hansen-Tangen group has laid up the 229,330 dwt Adna in Flekkefjord.

Tumosan seeks foreign capital

BY METIN MUNIR IN ANKARA

TUMOSAN, the company set up by the Turkish Government to develop an indigenous motor industry, is to open its doors to substantial foreign investment.

The Government may be willing to sell up to 60 per cent of the Tumosan holding company, which has an initial capital investment of $1.08bn (£473m) if partners can be found.

The decision reflects the policy of Mr. Suleyman Demirel, the Prime Minister, to encourage private enterprise. It also reflects concern felt outside the country, chiefly by the International Monetary Fund and the Organisation for Economic Co-operation and Development, that Turkey should curb the growth of loss-making State enterprises and attract foreign investment.

Tumosan is one of a number of State holding companies owned by the Government but intended to be run on entrepreneurial lines.

Tumosan is engaged in five major projects, involving the manufacture of 100,000 tractor engines, 29,000 diesel engines, 40,000 light diesel lorry engines and 75,000 gear-boxes by 1985. It will also produce 25,000 tractors a year, starting this year.

New companies are to be formed to deal with each of these projects and the foreign licensors involved are to be invited to buy into them, Mr. Sedat Celikdogan, Tumosan's general director, said.

"We want to determine the general direction of the motor industry," said Mr. Celikdogan. "The rest can be left to private initiative."

Offers have been made to Volvo, of Sweden, Daimler-Benz and ZF, of West Germany, Fiat, of Italy, and Mitsubishi, of Japan, all companies with which Tumosan has licensing agreements.

For its part, Daimler-Benz is negotiating the purchase of a 34 per cent interest in the truck diesel engine project which has an estimated capital cost of $230m (£100.8m). Representatives of Volvo, which is believed to be interested in buying a stake in the same company, are expected in Ankara for discussions.

Is Bankasi and Akbank, two of Turkey's largest private banks, are also discussing forms of partnership with Tumosan. The Islamic Development Bank has also been invited to participate.

Councils agree new draft code

BY ROBIN PAULEY

LOCAL AUTHORITIES have agreed on a draft code of practice on the extent of financial information they should publish. This is in line with Government demands that they become more accountable to the ratepayers who elect them.

Some local authority officers fear the code may go too far in linking publicly ratepayers' money and local authority management.

Mr. Michael Heseltine, the Environment Secretary, is understood to feel it may not go far enough. He wants manpower statistics published quarterly rather than annually, for example, and the code to include publication of time taken to process planning applications.

The code, still a confidential working document, will be considered by the Officers' Steering Group consisting of Government civil servants and local authority associations officers, on Thursday, and by the joint Government/local authority consultative council on local government finance attended by Ministers next month.

The code fulfils the Government's aim that comparative information should be given on the rate demand note, to show how, where and why significant changes in costs have occurred compared with the previous

A service-by-service breakdown of estimated gross expenditure is proposed, together with details of total gross income.

The comparison with the previous year should show the part of the total rate which has changed as a consequence of inflation, changes in grant, provision of services, income and in balances.

The code, devised by the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives, and submitted to the local authority associations and the Environment Department, has attempted to meet all the Government's demands in the hope that a process of self-regulation will be accepted as a better method than legislation of introducing more accountability.

Each local authority would be encouraged to explain major policy objectives, budget and rate-fixing strategy

Unigate bid for Clifford's Dairies

WE HAVE been asked to make it clear that the Takeover Panel has not censured or imputed any impropriety to Unigate or its financial advisers J. Henry Schroder Wagg, over the increased bid for Clifford's Dairies, as may have been inferred from the report in our issue of May 17.

The Takeover Panel executive has suggested that Unigate may have offered too high a premium for Clifford's voting shares, compared with the terms for its non-voting stock, and thus its proposed bid was not "comparable" within the terms of Rule 21 of the Takeover Code.

Weather

UK TODAY

DRY with sunny periods, but scattered showers in West Scotland. Cool near East coasts.

London, S.W. England, Midlands, Wales, N. England
Mainly dry with sunny periods. Max. 22C (72F).

Channel Isles, E. Anglia, East Coast
Mainly dry with sunny periods but light North-East wind. Max. 19C (66F).

N.E. England, Scotland
Dry and mainly sunny. Wind N.E. light. Max. 19C (66F)

N.W. Scotland, N. Ireland
Sunny periods with scattered showers developing and variable wind. Max. 19C (66F).

Outlook: Becoming cooler with some showers.

WORLDWIDE

		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	C	15	59	London	C	19	66
Algiers	F	20	68	Lxmbg.	S	18	64
Amsdm	S	21	70	Luxor	S	41	106
Athens	F	21	70	Madrid	F	18	64
Bahrain	S	33	91	Locarno	C	16	61
Barclna	S	17	63	Majorca	F	15	59
Beirut	F	22	72	Malaga	F	27	81
Belfast	S	19	66	Malta	F	21	70
Belgrd	F	16	61	M'chstr	S	21	70
Berlin	S	19	66	Melbne	S	13	55
Biarritz	C	14	57	Milan	F	17	63
Bmghm	S	19	66	Montreal	R	11	52
Blackpl	S	18	64	Moscow	C	10	50
Bordx	S	19	66	Munich	R	10	50
Boulgn	F	16	61	Nairobi	C	21	70
Bristol	F	19	66	Naples	F	16	61
Brussels	S	20	68	Nwcstl	S	18	64
Budpst	C	15	59	N York	R	15	59
B Aires	S	22	72	Nice	F	17	63
Cairo	S	30	86	Nicosia	S	21	70
Cardiff	S	19	66	Oporto	R	14	57
Cas'b'ca	S	20	68	Oslo	S	25	77
Cape T	S	18	64	Paris	C	19	66
Chicago	C	14	57	Perth	S	21	70
Cologne	S	21	70	Prague	C	11	52
Cphgn.	S	21	70	Reykjvk.	F	11	52
Corfu	F	18	64	Rhodes	S	22	72
Dublin	S	16	61	Rio J'o	S	27	81
Ednbgh	S	18	64	Rome	F	16	61
Faro	S	23	73	Salzbrg	R	9	48
Florence	C	16	61	Singapr.	S	30	86
Frankft	F	20	68	Stckhm	S	20	68
Funchal	C	19	66	Strasbg.	S	18	64
Geneva	S	17	63	Sydney	S	18	64
Gibrltr	S	22	72	Tangier	F	20	68
Glasgow	S	21	70	Tehran	S	21	70
G'nsey	S	17	63	Tel Aviv	S	22	72
Helsinki	C	12	54	Tenerife	F	16	61
H Kong	S	26	79	Tokyo	C	16	61
Innsbrk	C	13	55	Toronto	R	10	50
Invrnss	S	17	63	Tunis	F	19	66
I.o.Man	S	15	59	Valencia	S	20	68
Istanbul	S	21	70	Venice	F	17	63
Jersey	S	17	63	Vienna	C	13	55
Jo'burg	S	21	70	Warsaw	C	14	57
L. Plms.	S	21	70	Zurich	C	14	57
Lisbon	F	21	70				

C—Cloudy. F—Fair. R—Rain. S—Sunny.

THE LEX COLUMN

Floating coupons get a go-ahead

Eager to break new ground in the raising of finance, some merchant bank could well announce the first Euro-sterling floating rate note (FRN) before thet week is out. This follows a change of heart by the Bank of England which has hitherto regarded issues of such securities by UK banks as an obvious circumvention of the now-defunct "corset" control.

Banks, rather than industrial companies, ar ethe most natural issuers of such notes because they have a special incentive to borrow floating rate funds at somewhat over the interbank rate. A Eurosterling FRN issue can improve the liquidity and capital position of a bank because the funds are raised for a number of years and because the paper is subordinated to deposits when it comes to repayment.

Industrial companies, in contrast, can raise floating rate finance more cheaply from banks than they can through the issue of FRNs. Even with the banking corset in place such companies never moved to float euro-sterling FRNs—the Bank of England's ban did not apply to non-bank issuers—and now that the corset is being removed the competition to extend attractive loans to indusry can presumably only increase.

The problem for the pioneering issuing house which launches the first euro-sterling FRN lies in gauging the investor response. Floating rate notes have investor appeal against a background of rising interest rates. The current sterling interest rate picture favours fixed interest investment.

The second source of uncertainty over FRNs is the controversial paper on liquidity now being aired by the Bank of England. It remains unclear whether Eurosterling FRNs will be regarded, under the guidelines, as liquid assets like gilt-edged, or whether they will be treated as long term interbank loans which detract from the holder's liquidity.

Enter the BDR

Marsh and McLennan's proposed launch of UK Bearer Depositary Receipts forms an important element of the group's attempt to hold on to the substantial block of British shareholders it will inherit from C. T. Bowring. Immediately the bid goes through Bowring's shareholders will own about 24 per cent of Marsh equity, and because the American shareholdings are on average much bigger, numerically the British shareholders will actually be easily in the majority.

It is already a well established procedure that British companies listed in the United States should repackage their shares in the form of American Depositary Receipts, mainly to get the effective price out of the penny stocks category and up to a level which confers respectability. Thus BP, by putting four into one, gets its ADR price up to a level of around $30 which is comparable with, for instance, Texaco or Gulf. Currently Tricentrol is planning to group a number of shares into a package which can be launched on to the U.S. market.

With BDRs it works the other way around. British investors, for some reason, like to own lots of low priced shares rather thain a few heavy ones, so Marsh is not only proposing to split its own U.S. shares on a one-for-one basis but will make one BDR equal to a tenth of a share. Against a current share price of some $56, Marsh will end up with a unit worth around 125p which will fit comfortably into the insurance brokers' share price list.

There are other reasons for promoting BDRs. An easier transfer system can be set up in the UK; dividends will be paid in sterling, sparing the UK investor the nuisance of converting small dollar payments. And UK basic rate tax will be deducted at source, emphasising that despite the name these will not be the type of anonymous bearer securities paying income gross which are common in, say, the Euromarkets.

By no means all British shareholders are likely to wish to hold Marsh in BDR form, however. Most large institutions are already well accustomed to holding foreign equities direct, and they have established procedures to allow them to cope with technical problems like currencies and tax. They will only be interested in BDRs if they sell at a discount to the underlying equity.

The challenge for the banks and brokers backing Marsh, and for the London Stock Exchange, is to develop an active and efficient market in a foreign equity, based upon large UK holdings. Marsh's common stock will be listed for big UK and European investors, while the BDRs will be attractive to smaller private buyers. If the attempt flops, and the Marsh equity rapidly disappears back across the Atlantic, London's ambitions as an international dealing centre will have received a nasty knock.

Japan

A few weeks ago the fall of the Japanese Government would have had serious repercussions for the yen and the domestic financial markets. The Government had spent most of March devising measures to shore up the currency, in spite of which the rate fell to a low of Y264 against the dollar in early April. However, in the last three weeks the yen has staged a strong recovery, initially against the dollar, where the rate stood at Y227.6 on Thursday, and later against the other major currencies as well. The downward reaction after the fall of the Ohira Government has been strictly limited, with the dollar rate closing at Y229.5 in London on Friday.

The recovery has been supported by more internationally-competitive interest rates, combined with prospects of inflation peaking in the third quarter at only 10 per cent. Both equities and bonds have risen with the currency, with foreign investment heavily in evidence. Several company stocks have bumped against the 25 per cent foreign ownership limit, including Hoya Glass, Fujitsu Fanuc, Clarion and Canon.

While dealing volumes have been heavy, the overall rise in the Tokyo New Stock Exchange index since the beginning of the year has been limited to about 4 per cent. A lot of the activity has been in switching out of the energy-related sector into blue chip exporters and domestic stocks. And at least part of the activity reflects aggressive marketing by the securities houses after their profits were savaged in the six months to March by the steep decline in the bond market.

The likely reaction in the short term to the fall of the Government hinges on fears that a centre-right coalition may emerge. But if the LDP retains power and the markets should strengthen over the medium term. While the appreciation of the yen will have little effect on the competitiveness of the exporters, the possible depth of the U.S. recession could prove more of a constraint on earnings. In contrast, the current health of the Japanese economy makes the domestic stocks look attractive.

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